Market Release

26 August 2022

AFG

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AFG delivers strong full year result from earnings diversification

Australian Finance Group Ltd (ASX: AFG) has delivered a strong financial result for the financial year ended 30 June 2022 with business volume growth driving a 20% increase in normalised earnings and 30% increase in the final dividend.

Key highlights:

- Normalised NPATA[1] of $61.3 million, up 20% (FY21: $51.3 million).
- Normalised underlying NPATA[2] of $55.8 million, up 12% (FY21: $49.6 million)
- Statutory NPAT of $38.8 million after technology and investment related impairments of $21.3 million
- Strong growth across all business lines with Direct Lending (AFG Securities) driving earnings diversification and growth:
    - Direct Lending settlements up 102% to $2.7 billion and loan book up 41% to $4.8 billion (net interest margin 163 basis points)
    - White label settlements up 36% to $2.9 billion and loan book up 8% to $8.5 billion
    - Aggregation settlements up 36% to $59.4 billion and loan book up 9% to record $182.2 billion
    - Commercial settlements up 67% to $3.9 billion and loan book up 19% to $10.9 billion
- Maintaining our dividend policy and delivering a final fully franked dividend which is up 30% to 9.6 cents per share. Total FY2022 dividend of 16.6 cents per share, representing payout ratio of 80% and dividend yield of around 9% fully franked[3]
- Strong balance sheet with net cash, investments, and other financial assets of $217 million
- Trail book net asset growth of $5.5 million (after tax), up from $1.7 million last year driven by record settlements
- Low capital requirements support strong returns with ROE of 30%

Performance

Commenting on the FY2022 result, AFG CEO David Bailey said: "Our strategy to diversify for earnings quality and growth through a broader product set has been a key driver in AFG delivering 20% growth in normalised earnings and increasing the final dividend by 30% in FY2022.

AFG Securities settlements more than doubled in the year, significantly outperforming the strong 36% growth in both white label (distributed on behalf of ADIs) and aggregation settlements. This outperformance was maintained throughout the year with settlements in the second half exceeding the first half period.

Aggregation remains AFG's largest business and has continued to grow strongly throughout the year with $59.4 billion of settlements, increasing the loan book by 9% to a record $182.2 billion.

"Homebuyers continue to embrace the competition and choice provided by mortgage brokers and this has been evidenced by an increase in broker market share to 69.5% in the March 2022 quarter," he said. AFG broker numbers, including Fintelligence and non-Residential brokers, have now increased to over 3,700 brokers.

[1] Net Profit After Tax, excluding acquisition amortisation and after-tax impairment of investments of $21.3m
[2] Net Profit After Tax excluding acquisition amortisation, trail book accounting, and after-tax impairment of investments
[3] Closing share price of $1.85 on 2 August 2022

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"Approximately 1 in 10 Australian residential mortgages are now arranged by an AFG broker. We remain confident that the role and value of brokers to Australian borrowers will become more important as their customers seek advice and adjust their finances as their economic position changes."

Strong cash generation was again a feature of the result with the business generating net cash from operating activities of over $51 million, underpinned by high quality annuity-style earnings from the Trail and Loan Books. This year has also been our best year for recruitment in more than a decade with more than 200 groups joining AFG in FY2022," he said.

The FY2022 performance allowed the Board, consistent with AFG's long-term dividend policy, to increase the final dividend by 30% to 9.6 cents per share, bringing the FY2022 total dividend to 16.6 cents per share. This represents a payout ratio of 80% and dividend yield of around 9% fully franked.

"AFG is well positioned to continue executing its diversification strategy to drive continued earnings growth across the interest rate cycle," said Mr Bailey.

Key investments

AFG's strategic investments in Thinktank, Fintelligence and BrokerEngine are delivering earnings growth and creating ongoing opportunity for further expansion. Thinktank's earnings contribution is up 16% to $6.1 million for the year and Thinktank white label settlement volumes have increased by 84% to $239 million in FY2022.

"Since taking up the controlling interest in Fintelligence, the company has delivered $700 million in asset finance settlements and an earnings contribution of $3.6 million for H2 FY2022. This investment accelerates our opportunity to expand distribution and direct lending into the under-served asset finance market. In addition, BrokerEngine has seen 41% growth in subscribers since acquisition and its market-leading technology will play an important role in our ongoing technology offering for AFG brokers and customers.

"These strategic investments have expanded our aggregation, technology, distribution and lending capabilities," he said. "Notwithstanding their financial contributions to AFG's results, it is also a critical part of our strategy to deliver more products and services to our brokers, while reducing the digital friction."

The acquisitions also provided AFG the opportunity to refocus its technology strategy to utilise the best of each technology platform to ultimately deliver a more flexible, efficient, and integrated solution for brokers. This resulted in a $6.3 million (after tax) partial impairment of past capitalised expenditure relating to elements of AFG's inhouse technology developed prior to the acquisitions. The impairment of $15 million from Volt Bank's recently announced cessation of its banking licence brought total impairments in FY2022 to approximately $21.3 million (after tax).

"The integration and further development of these acquisitions, alongside our own technology, will undoubtedly present more challenges in the future, however it highlights our commitment to continue to invest in opportunities for growth for our shareholders, our brokers, and our customers," Mr Bailey said.

Company outlook

The Reserve Bank of Australia (RBA) has commenced the process of increasing interest rates to more neutral levels following the expansionary policy settings used in response to the COVID-19 pandemic. However, interest rates and unemployment levels remain at historically low levels and continue to support demand for mortgage broking and lending services.

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While the expectation may be that lending volumes may moderate in the short term, lender activity is high, with all lenders aggressively chasing market share. The residential mortgage market has historically performed strongly during periods of rising interest rates, and AFG's volumes have outperformed the overall market. Underpinning this, in the current rate cycle, are approximately $36 billion of fixed rate residential mortgages in the AFG loan book that are due to expire over the next three years. Their refinancing will continue to drive settlements in the market and provides a significant growth opportunity for AFG Securities to continue building its loan book.

"In addition, we remain confident that over time, our diversification into the asset finance and commercial lending markets will provide value and growth to the company and can replicate what AFG and its residential brokers have achieved," he said. "Recent term transactions as well as increased warehouse capacity provides funding certainty for AFG Securities' growth plans while the funding market settles following the recent RBA rate rises."

Mr Bailey added: "AFG's strategy of diversification and expansion has resulted in AFG Securities becoming the second largest contributor to earnings in FY2022, accounting for 26% of gross profit behind Aggregation at 46%. This compares to only 4% in FY2015. Furthermore, a robust credit assessment process has ensured loan quality remains high. Approximately 88% of the AFG Securities loan book had a Loan to Value Ratio (LVR) below 80% at the time of settlement, and combined with our strong credit processes, has seen our expected credit loss driven provisions remain relatively flat despite the fact that our loan book has grown considerably."

"The role that brokers play for a broad range of Australian mortgage borrowers, and increasingly as an important business partner for SME operators, points to an exciting future for the company. With a strong, capital light balance sheet and reliable cash flow generation, AFG remains very well positioned to continue delivering strong shareholder returns through diligent execution of its growth strategy," he concluded.

Analyst briefing

An investor presentation and Q&A session for AFG's annual results will be held on Friday 26 August 2022 at 10.00am (AEST). To participate in the call, please pre-register using the following link: https://s1.c-conf.com/diamondpass/10023328-bsud7s.html

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The release of this announcement was authorised by AFG's Board of Directors.

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