

25 February 2022

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HY22 AFG reports strong growth and continued earnings diversification

AFG (**ASX:AFG**) today announces a stellar start to the 2022 financial year, recording 20 per cent NPAT growth for the half, further emphasising the success of the company's ongoing diversification strategy across business lines and asset classes. The result follows a record financial performance in FY21 with 35 per cent growth in NPAT over FY20.

AFG continues to deliver against strategic objectives while growing profitability with a business model that continues to deliver excellent shareholder returns.

Key highlights:

- Reported NPAT of \$30 million, an increase of 20%
- AFG Securities settlements up 192% to \$1.3 billion
- AFG Securities loan book up 36% to \$4 billion
- Residential settlements up 47% to \$30.8 billion
- AFG Home Loans settlements up 90% to \$2.8 billion
- Commercial settlements up 83% to \$1.8 billion
- Our capital light, robust balance sheet is maintained with \$225 million in net cash and other financial assets
- Return on equity of 29%
- EPS growth of 20%
- Interim dividend 7c per share, generating an annualised yield of 6%
- Key acquisitions to build diversified scale and support broker opportunities and efficiency

AFG CEO David Bailey commented: "We come from a position of strength in the market of scale, reputation and financial stability. Our core pillars of aggregation, distribution, manufacturing, and diversification are delivering positive results for our brokers and our shareholders, and competitive outcomes for consumers."

"Our half yearly results reveal higher settlements across all business lines and, importantly, the company recorded growth of 36 per cent in the loan book of its major earnings driver, AFG Securities. This loan book now sits in excess of \$4 billion."

"Investment in our own technology and recent fintech acquisitions position us to maximise growth opportunities and continue to improve the broker and customer experience across multiple asset classes."

The result further underwrites the ability of the company to maintain an excellent dividend payout policy. "The strong cash flow generation capability of our business has enabled us to enhance our historical dividend policy to a record interim dividend of 7 cents per share - an increase of 19% on HY21."

Current trading

As Australian mortgage broker market share eclipsed 67 per cent, AFG's residential settlements lifted by 47 per cent to \$30.8 billion. Solid growth in the AFG Home Loans division has seen a 90% increase in settlements to \$2.8 billion, with a focus on the higher margin AFG Securities loan book delivering a 192% increase in settlements to \$1.3 billion.

Market Release

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"We set the goal at the commencement of the financial year to continue to build the AFG Securities loan book and also introduce some higher margin products," he said. "Both of these actions will ultimately assist in offsetting margin pressures within this part of our business, and this is one of the most pleasing aspects of this half's result."

"The residential mortgage market is performing well. The removal of the Term Funding Facility for the major banks has lifted the competitive advantage of the non-major lenders and AFG Home Loans will continue to benefit from the return to a level playing field."

AFG Business and Commercial volumes have rebounded as confidence in this sector returns. AFG's strategic investment in Thinktank delivered a contribution to earnings of \$2.68 million on the back of strong settlements across its own distribution channels.

Investments

"We are delighted to report the successful completion of two acquisitions in the first half to build on our earnings diversification strategy. These strategic acquisitions position AFG for future growth and optionality," he said. "Fast-growing asset finance market leader Fintelligence has a proprietary tech platform and significantly increases the scale of our asset finance distribution network, adding a further 350 brokers to our broader network," he said. "The combined group now has 3,525 brokers working to support their customers"

"In addition, Fintelligence provides an in-house referral service for our residential brokers and a direct-to-consumer web presence. The work to unlock the potential for further growth with the development of new products to distribute and securitise in this asset class is underway, which will help broaden the earnings base of AFG into the future."

The first half of the 2022 financial year also saw AFG take a stake in BrokerEngine, a fintech specialising in advanced automation and the design of bespoke customer journeys tailored at a business level to optimise data and workflow. BrokerEngine will integrate with AFG's technology platform and will retain its brand and product offering to the broader Australian broker market.

"AFG's growing digital ecosystem will significantly accelerate value creation, delivering value to our broker network, our lender partners, and our customers," he said.

Outlook

AFG has a \$630 million market cap and is supported by a strong, capital light balance sheet. "AFG's business model generates strong cashflows and, having been at the forefront of the mortgage broking industry since 1994, we have been exposed to all parts of the economic cycle."

"Current trading conditions affirms the growth trajectory and supports our dividend policy," he said. "While we remain mindful of the changing economic environment, unemployment remains low. We are positive about the outlook of the mortgage market and the opportunity for AFG to accelerate our growth in other asset classes."

Australian consumers are embracing the choice, convenience and competition that the broker channel provides. One in 10 Australian residential mortgages are now arranged by an AFG broker.

"All of these factors translate into AFG continuing to be in a strong position to deliver ongoing broker and shareholder value," he concluded.

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