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5 May 2022

Market Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

MACQUARIE CONFERENCE PRESENTATION

The Company will address the Macquarie Australia Conference today. Attached is the accompanying presentation.

Authorised for disclosure by:

Lisa Bevan
Company Secretary

CONTACT DETAILS

Alison Clarke, AFG Head of Corporate Communications
David Bailey, CEO

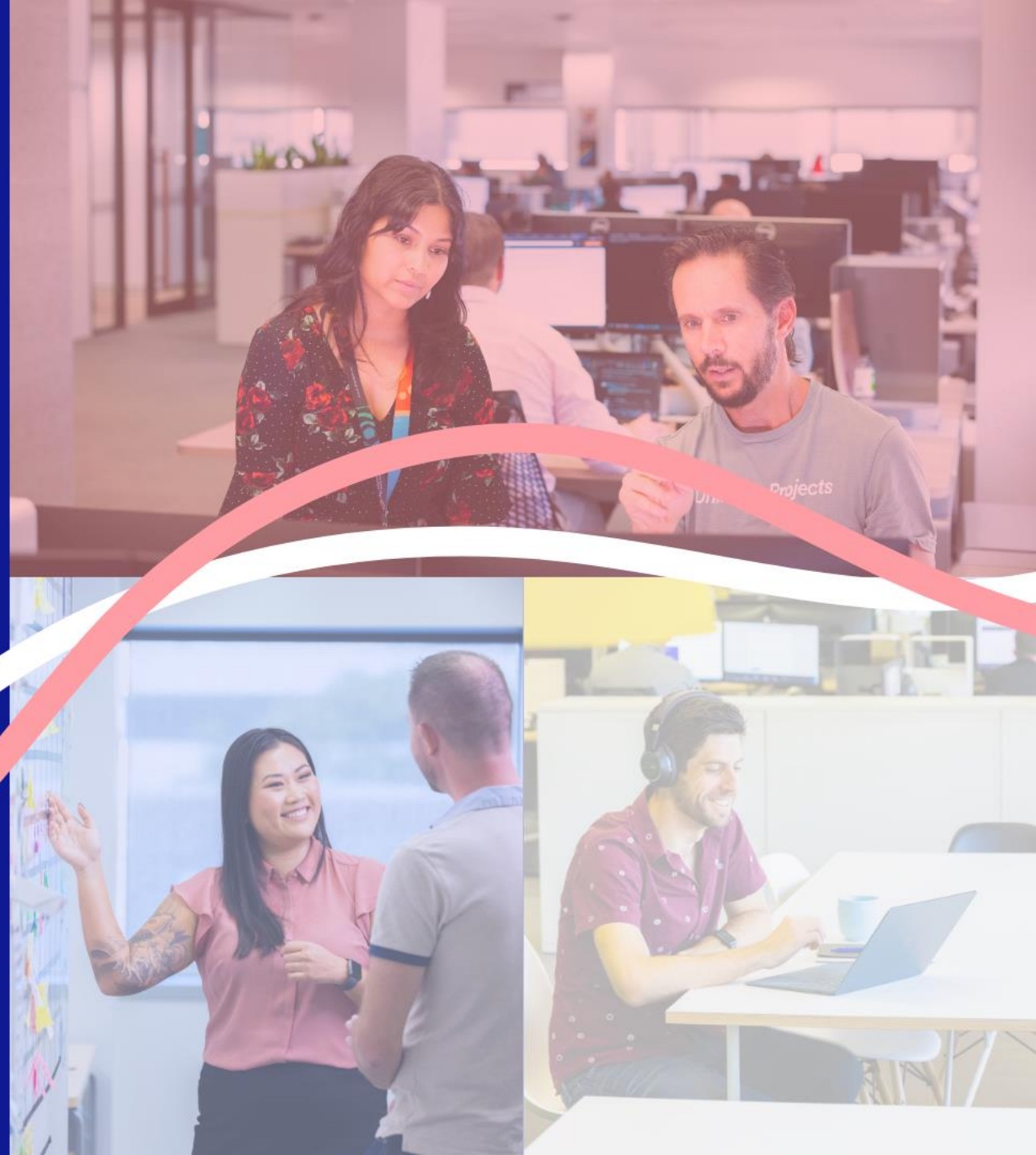
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AFG

**Macquarie
Australia
Conference**

2022

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Important Disclaimer

This presentation contains general information which is current as at 4 May 2022.

The information is intended to be a summary of Australian Finance Group Ltd (AFG) and its activities as at 31 December 2021 and does not purport to be complete in any respect.

The information in this presentation is not a recommendation or advice about shares in AFG (or any other financial product or service). It is not intended to influence or be relied upon by any person in making a decision in relation to AFG shares (or any other financial product).

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For further information visit: www.afgonline.com.au or contact:

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Corporate highlights

AFG is one of Australia's largest residential mortgage aggregators, continuing to deliver growth in profitability and shareholder returns through successfully expanding into higher margin lending services

\$550m

Market cap¹

\$225m

Net cash and financial assets

\$188m

Dividends paid since listing in May 2015

185%

5 Year Total Shareholder Returns

18% CAGR NPAT since 2015

29% Return on Equity²

3,525+ Total Brokers

1 in 10 Mortgages in Australia

Aggregation

Residential settlements up **47%** to **\$30.8B**

Trail book up **9%** to **\$173.8B**

White Label

AFG Home Loans settlements up **90%** to **\$2.8B**

Trail book up **14%** to **\$12.18B**

Direct lending

AFG Securities settlements up **192%** to **\$1.3B**

Closing book up **36%** to **\$4.03B**

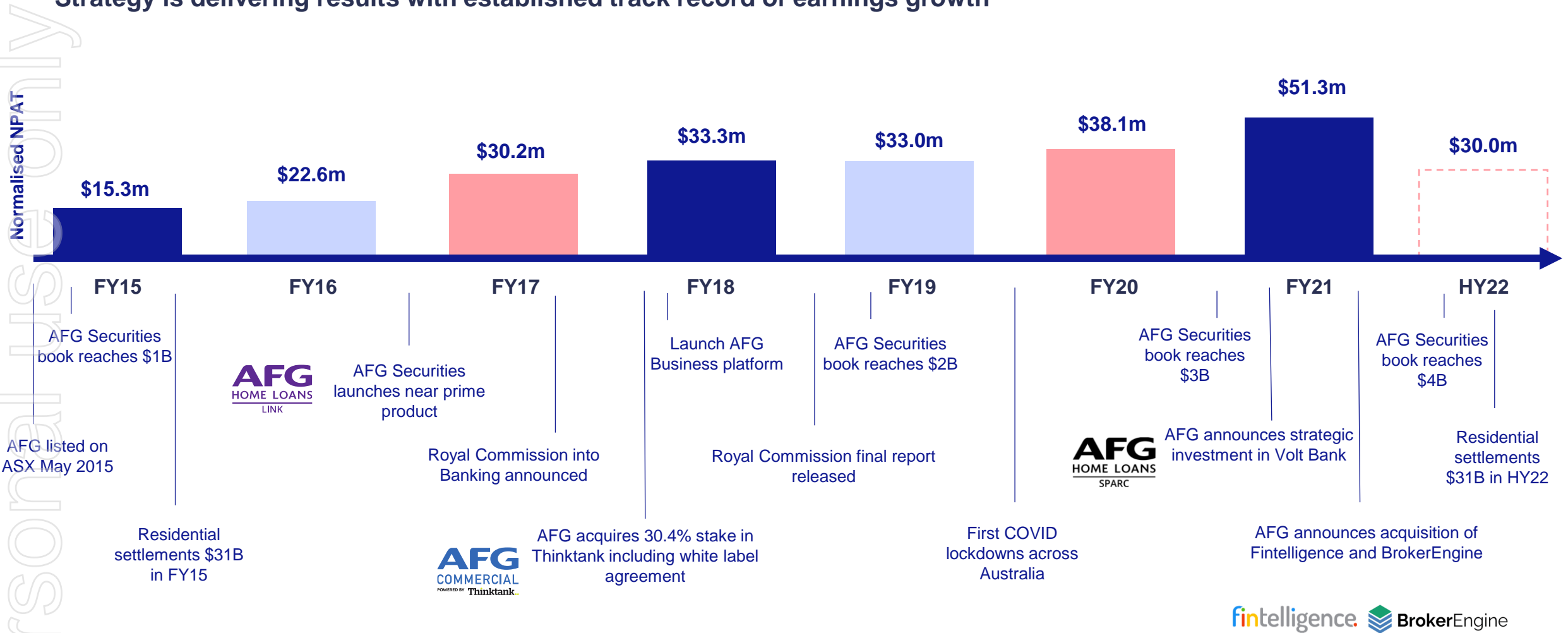
1. As at April 2022

2. As per H1 FY22 results, share price as at 11/02/2022
Other metrics as per H1 FY22 results to 31 December 2021

Our journey: Delivering growth and value

Listed on the ASX in May 2015 with a view to grow our distribution and build scale, and use this to drive margin growth

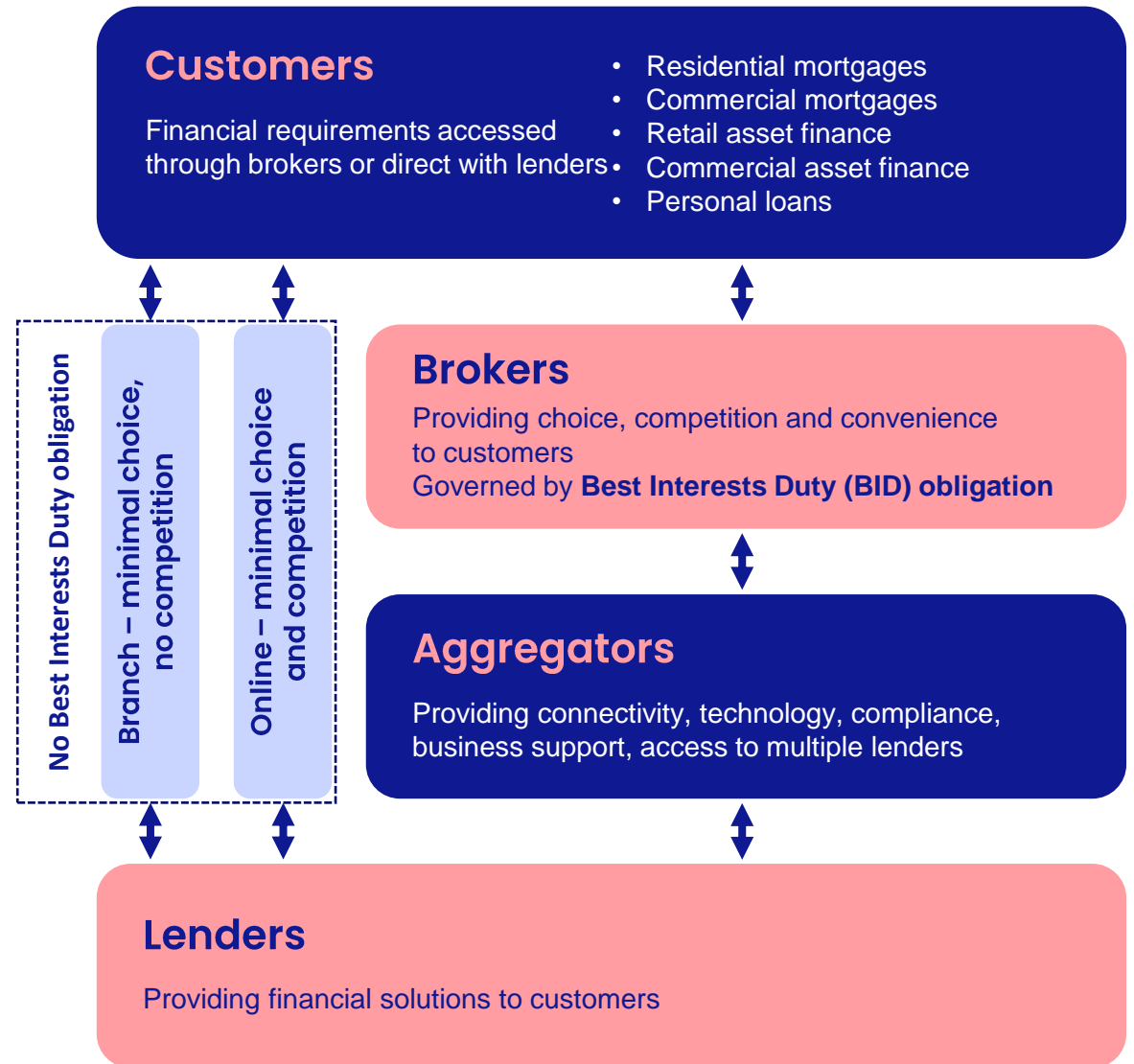
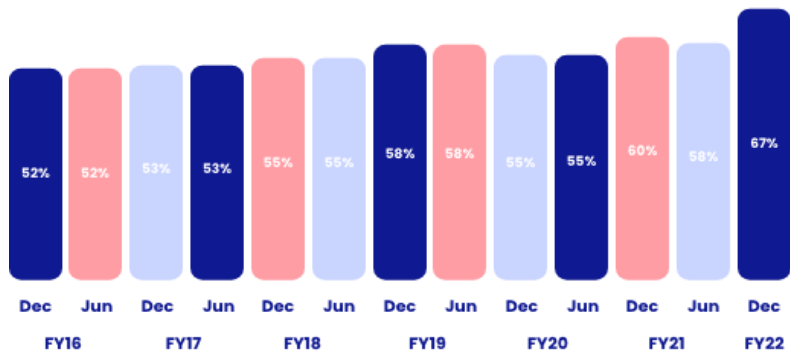
Strategy is delivering results with established track record of earnings growth



The Australian finance industry

- Australian residential and commercial lending markets total over \$600 billion. 1 in 10 residential mortgages written through an AFG broker
- Non-bank lenders provide an essential alternative and are now 15% of the residential market – significant opportunity for AFG
- Brokers systemically important to all lenders, including those with branch networks – providing competition and choice
 - Growing number of lenders and complexity of products means brokers are essential to help customers navigate the lending market and secure the right finance solutions to meet their individual needs
- Broker market share continues to grow, 67% in Q1 FY22 up from 50% in FY16

Broker market share %



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AFG strategy for growth

Diversified business model built on a strategy of growing mortgage aggregation market share, and growing margins through expanding upstream into lending and across into non-residential asset classes

3 Direct lending

RMBS AFG Securities loans generate a Net Interest Margin (NIM)

NIM of 172bps per annum in HY22

\$4.03 billion loan book

- Full-service cradle to grave model
- 12 years' experience
- Initial funding provided by 3 major banks
- Refinanced to debt investors in RMBS market providing long term certainty
- AFG Securities Retro and Link products as well as equity in Thinktank (Commercial)

2 White label

White label loans generate an additional fee for marketing and distribution

\$8.65 billion trail book

- Simple reseller model
- No credit risk
- Credit and customer service provided by white label providers
- Residential and Commercial mortgages currently. Asset finance products to be developed

1 Aggregation

Broker originated loans funded by lenders generate an upfront and trail commission – majority of which is paid out to brokers

Average Upfront net of clawbacks of 60bps and Trail 16bps
Average payout ratio of 94.4%

\$183.7 billion Residential and Commercial

- 70+ lenders
- 6000+ products
- Also includes additional product classes - Asset Finance, personal loans, insurance



\$0.94 billion
Personal Loans
settlement pa

\$1.7 billion
Asset Finance
settlements pa
(car loans etc)

\$10 billion
Commercial book

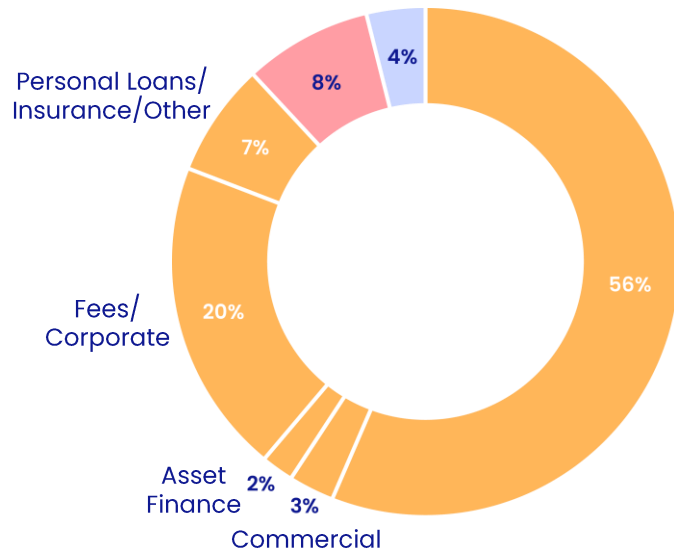
\$173.8 billion
Residential book

Diversification
Margin Growth

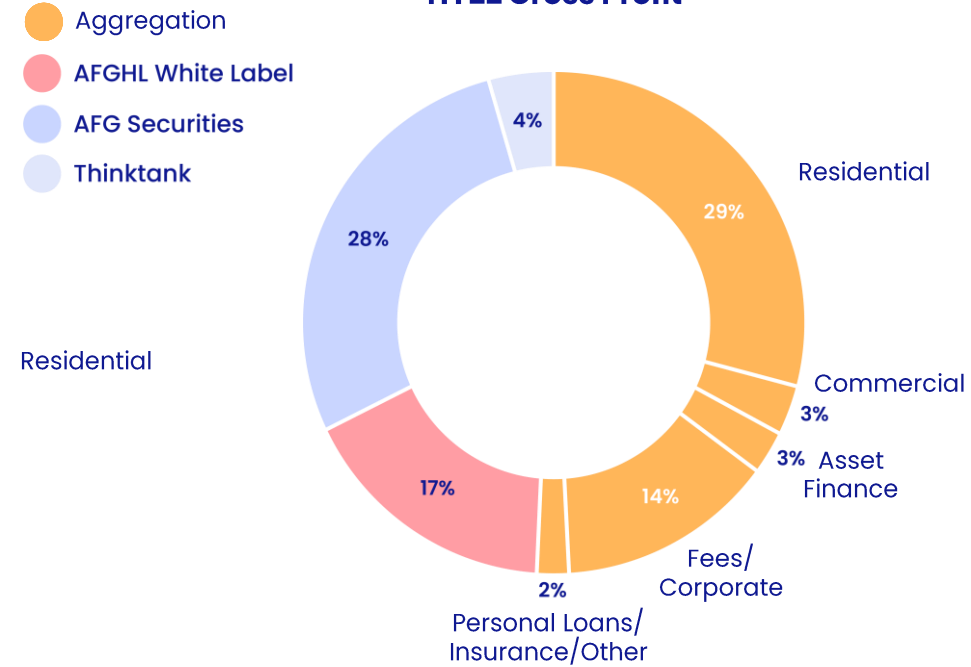
Transformation continues

- Profit mix shift from aggregation to higher-margin lending continues to drive growth. The future development of an Asset Finance lending product will further accelerate growth
- Aggregation payout ratio beginning to stabilise however the market remains competitive
- Fees for broker services increasing as technology offering broadens and number of brokers increase

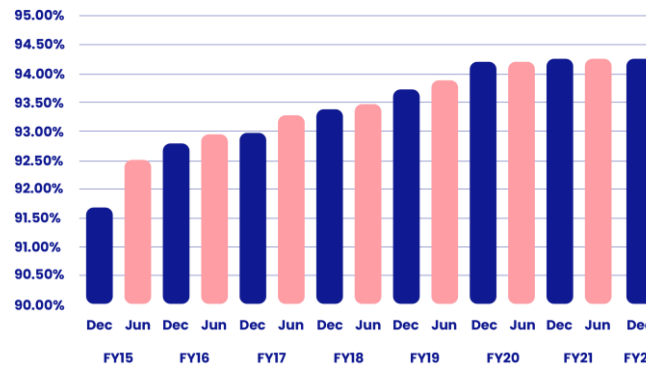
FY15 Gross Profit



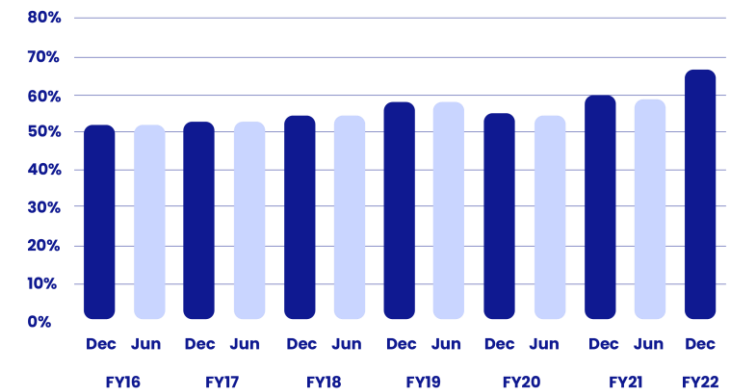
HY22 Gross Profit



Residential Upfront payout ratio



Australian broker market share



Fintelligence broadens AFG's broker offering

A fast-growing, profitable technology-based asset finance aggregation platform based in Queensland, with NPAT expected around \$6.6 million in full year FY22 on a pre-acquisition basis¹

350+
Brokers at
31 December 2021

\$513 M
NAF in HY22

182%
NAF growth over
the last 2 years

30+
Lender network

< 3%
Market share
in Australia

pepper
money

ANZ

LATITUDE

Commonwealth Bank

Plenti

MACQUARIE BANK

Westpac

BOQ

Liberty

st.george

money3

firstmac

Tech Platform

Proprietary cloud-based CRM and sales platform

Aggregation Platform

Direct access to every major finance and insurance provider

Broker Sales Training

Sales and business strategy training for brokers developed by industry experts

Digital Lead Generation

Digital lead generation marketing campaigns

IT Systems & Call Centre Support

Enterprise grade technology and cloud solutions to store business and customer data

Retail

Retail broking under the Brolly Brand

brolly

AFG + fintelligence

3,525+ brokers

\$1.7 billion+

- Larger distribution channel
- More lender and product opportunities for brokers and customers
- Potential establishment of small warehouse to drive meaningful revenue synergies
- Complementary platform for future M&A opportunities to drive market share
- Streamline of back office functions

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Macro economic environment

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AFG is well positioned

Broker and lending market

- A key player in lending market – 1 in 10 Australian mortgages written by an AFG broker
- Australian broker market share 67% at Dec 2021, up from 57% in Dec 2016
- Home ground advantage with extensive industry knowledge

Rising interest rates

- Increased activity in rising interest rate environment - refinancing opportunities - fixed rates to variable
- AFG has historically performed well in rising rate environment

Housing sector

- Residential mortgages generally perform well across the cycle
- AFG has a proven track record of strong arrears performance and low losses compared to peers
- Current AFG loan book is high quality utilising our robust credit process and home ground advantage

Rising rates and residential mortgages

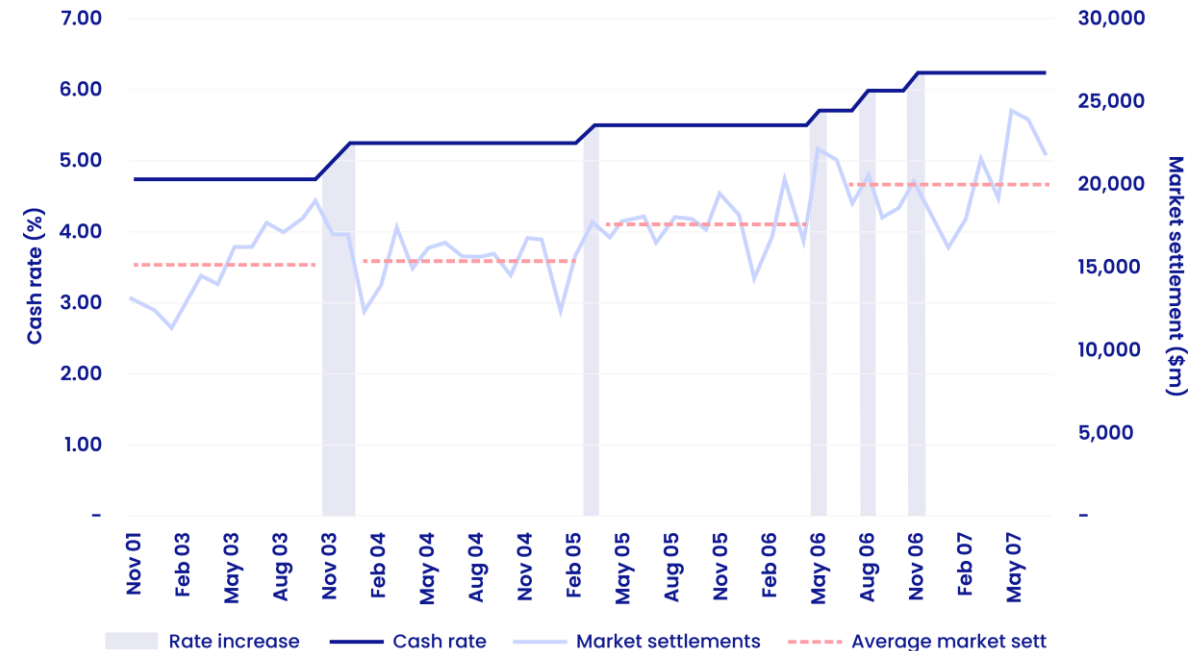
Impact of rising interest rates

- Historically the residential mortgage market has performed strongly during periods of rising interest rates
- Usually coincides with high volumes of lending activity that typically flattens or increases during the cycle
- The market continued to experience system growth during previous period of increasing interest rates (2002 – 2008)

Key positive demand drivers for financing activity

- Refinancing:** Increases from 20-30% of volumes to over 30% during times of change in the market
- Fixed rate mortgages:** Up to 40% of volume during FY20-FY22. Expected to return to usual level of 20% of volume as rates rise. Equates to approx. \$37.6 billion of Residential settlements reaching term and driving refinance activity
- Migration:** Net migration expected to increase now borders are open, fuelling further activity in the residential mortgage market
- Broker market share increasing:** Brokers continue to win market share as they provide choice, competition and convenience to customers. AFG will participate through ongoing recruitment of broker groups

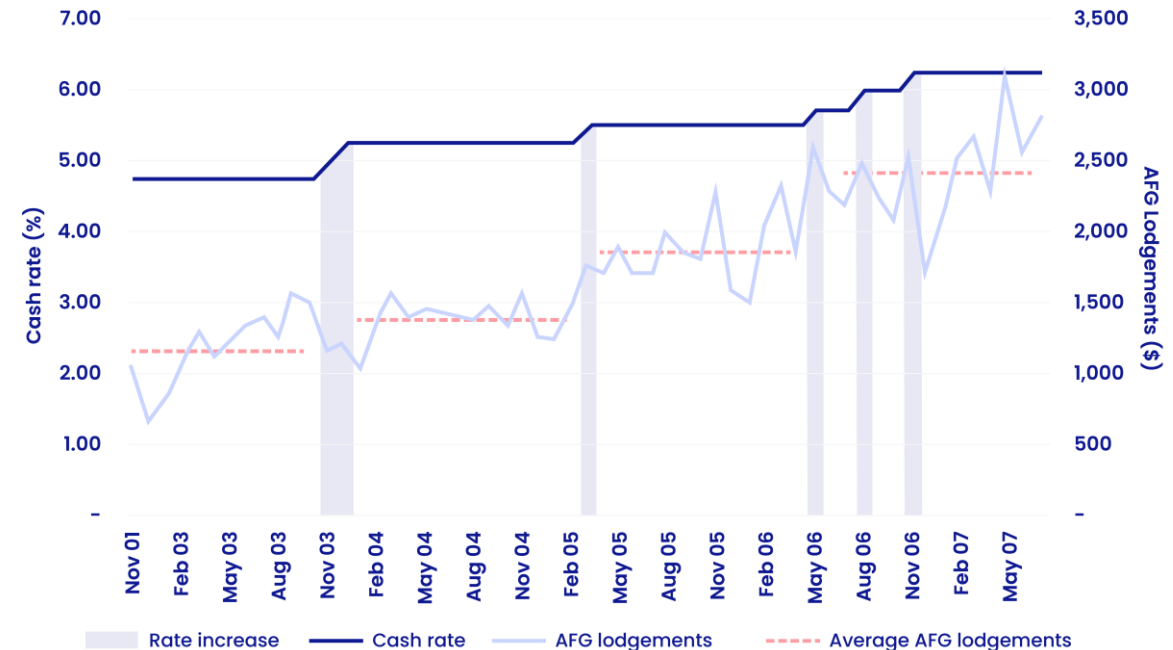
Residential mortgage activity in a rising interest rate period – Total market



AFG's proven performance in rising rate environment

- AFG's volumes increased significantly and outperformed overall market during the last period of increasing interest rates
- AFG's offering is compelling in a competitive market:
 - ✓ Balance sheet strength
 - ✓ Industry-leading compliance, advocacy and analytics capability
 - ✓ Broader technology considerations - including capacity to harness Open Banking
- Additional opportunities for growth through expanding broking and aggregation in other asset classes, particularly Asset Finance through Fintelligence

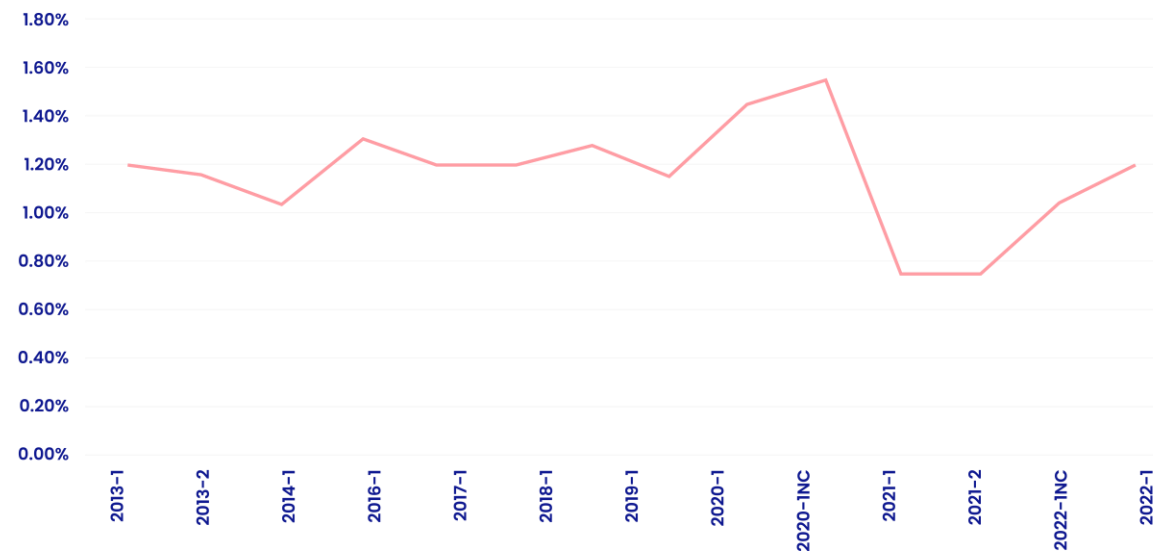
Residential mortgage activity in a rising interest rate period – AFG



Opportunity for AFG white label and securitised lending

- Funding markets remain open and attractive. Expected to continue to function normally
- Recent term transaction resulted in greater warehouse capacity and locks in funding for those assets for 5 years at a competitive price below the historical average
- Current variable rate competition appears tactical in expectation of RBA moves in the next 3 – 5 months and is expected to be transitory
- AFG products continue to gain traction in the market. Fixed rate loans are reducing from peaks of 40% towards 20%. As a result, the addressable market for AFG products is increasing
- The approaching \$37.6 billion refinance wave fuelled by maturing fixed rate products will present an opportunity for AFG Securities
- Product development in residential and other asset classes will open more markets to deliver growth
- AFG's home ground advantage of data-driven targeted product development and marketing is a key competitive differentiator in terms of distribution and book performance

AFG Term transaction senior note rate



Above chart shows the historical senior notes of AFG's securitised term transactions

Credit risk and margins

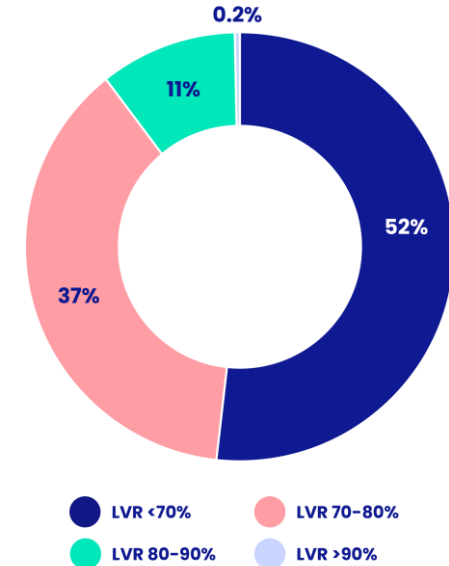
Residential mortgages generally perform well across the cycle

- Residential mortgages perform well even during times of stress such as the GFC
- Lenders have historically responded in rising interest rate environments and adjusted rates to customer to maintain net interest margins

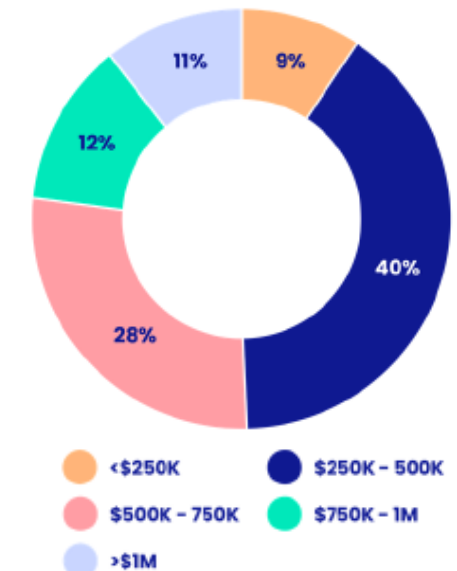
AFG Securities has a high-quality loan book

- Ability to utilize our home ground advantage with extensive industry knowledge
- Loan book is 100% variable and can respond quickly to increases in benchmark rates or funding margins
- Robust credit assessment process
- Low loss history of only \$260k incurred since commencement of securitisation program in 2007. \$228k of this from legacy loans in the initial warehouse
- Exceptional historical arrears rate below the S&P Global Ratings Mortgage Performance Index
- 49% of the loan book has a balance below \$500k and only 11% greater than \$1m
- 89% of the book has an LVR below 80%

AFG Securities book – LVR



AFG Securities book – Loan size



AFG Securities

losses and arrears

Losses since commencement in 2007

- \$260k in losses incurred with the bulk originated in our initial warehouse, which funded predominantly low doc and high LVR loans
- Product spec post GFC cap LVR at 90% for Prime and 80% (plus Risk Fee) for Low Doc and Non-Conforming Loans

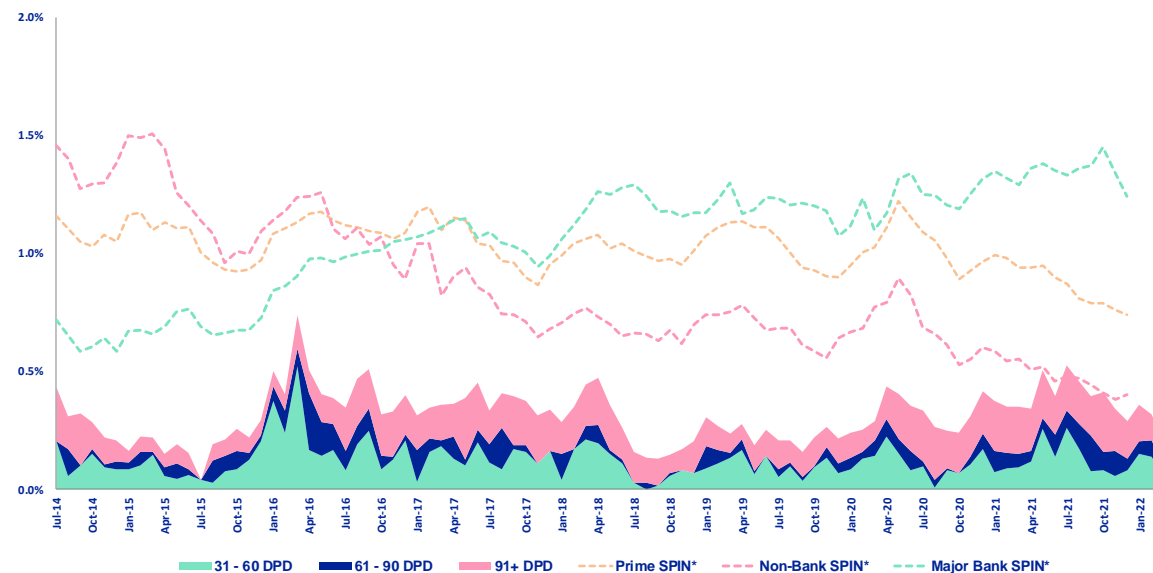
Arrears performance remains excellent

- Only 22 loans in arrears greater than 30 days out of 10,390 loans at 31 March 2022. Loans in hardship sits at 0.16%
- Exceptional historical arrears performance relative to peers and ADIs
- Borrower liquidity position very strong post-COVID with servicing buffers well above likely interest rates increase
- Average borrower is \$9,000 ahead in repayments and average offset balance is \$33,000
- AFG Securities' borrowers not exposed to "discount fixed-to-variable" shock

AFG Securities Historical losses

	Number of loans	Loss to AFG
Total	35	\$260,206
Legacy Loans	17	\$228,115
Loans written Post-GFC	18	\$32,091

AFG Arrears performance



1. S&P Global Ratings Mortgage Performance Index
2. % of book days passed due

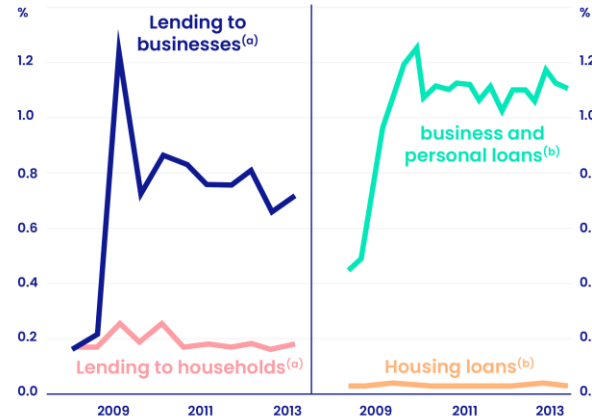
Residential mortgage performance

Residential mortgages perform well even during times of stress

- RBA data demonstrates that through the GFC, lending to households and housing loans continued to perform well
- During COVID lockdowns, the banks' loan performance shows that while arrears rates increased, the level of impairment remained stable as these cases can be managed by the lenders

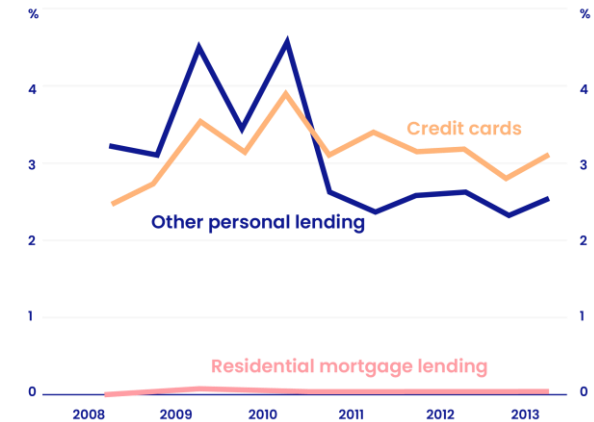
Market loan performance data

Credit Losses by Portfolio
Annual net write-off ratios



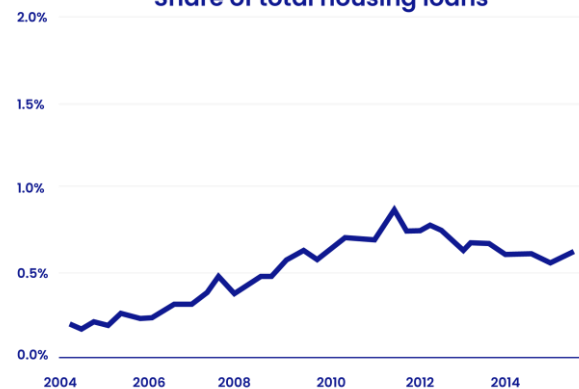
(a) Consolidated data for three major banks
(b) Includes all banks with housing loans > \$1 billion; eighteen banks as at December 2013
Sources: RBA

Credit Losses by Portfolio
Consolidated data for three major banks, annual net write-off ratios



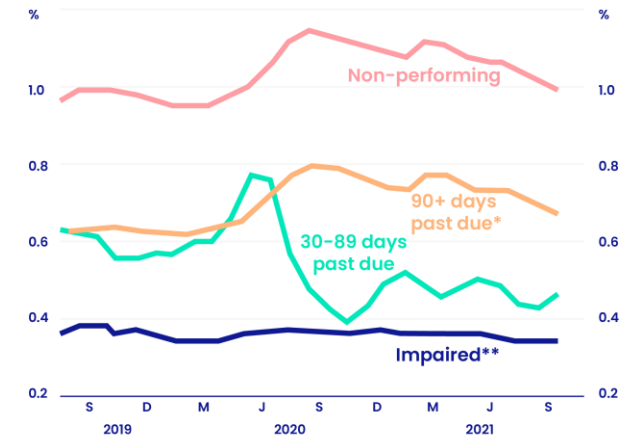
Sources: RBA

Non-performing housing loans
Share of total housing loans



Sources: APRA

Bank's Loan Performance
Share of all loans



* Loans where payments late by 90 days or more and well collateralised

** Loans 90+ days past due and not well collateralised or where repayment is doubtful

Sources: APRA; RBA

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Outlook

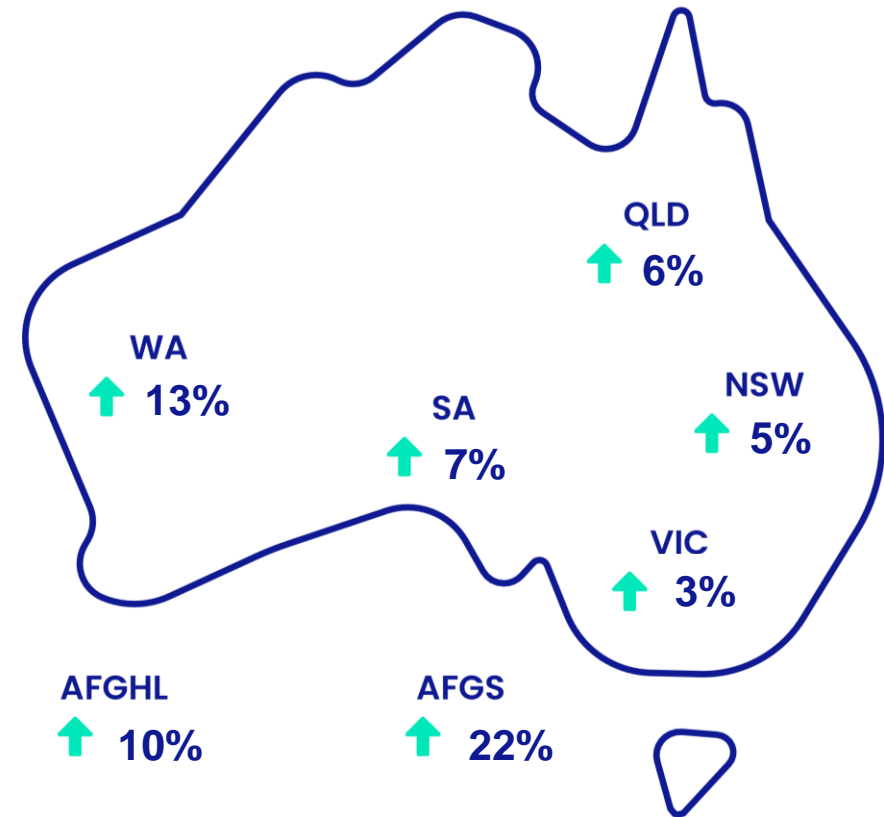
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March 2022 trading

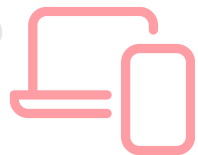
- Residential lodgements 6% above March 2021 at \$9.13 billion
- AFG Home Loans lodgements up 10% compared to March 2021
- AFG Securities lodgements 22% higher than March 2021. Settlements were 62% higher
- Positive growth in all states, particularly in Western Australia and South Australia

2021 – 2022 comparison March lodgements



March 2022 change on March 2021

In conclusion



Leading aggregation platform

- 3,525+ Brokers inc Fintelligence, up from 2,394 at Jun 2015
- 1 in 10 Residential mortgages through an AFG broker



Capital light with a robust balance sheet supported by strong reliable cash flow



Track record of strong returns

- **CAGR** HY15-HY22 NPAT 18%, EPS 14%
- **TSR** 3 Year 135%, 5 Year 185%



Leveraging into higher margin products

- Growing AFG Securities book (the most powerful margin driver of AFG)



Consistent dividends

- Paid \$188m in fully franked dividends to shareholders since listing in May 2015



Capacity to outperform in rising interest rate environment

- Positive demand drivers
- Proven performance in past rising rate periods
- Strong loan book quality

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Thank you

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Appendices

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About AFG

Diversified business model continuing to deliver growth in profitability and shareholder returns

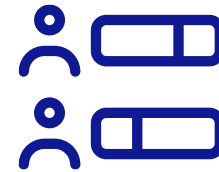
- Founded in 1994 as a residential mortgage aggregator, AFG has established a significant Australian mortgage market footprint and has successfully diversified into higher margin manufacturing and distribution across additional asset classes
- AFG has the foundations to continue to grow on the back of high cashflow generation and ongoing diversification
- \$550 million market cap supported by strong balance sheet. Net cash¹ and other financial assets totaling \$225m



Our purpose

Brokering a better future

- We exist to create competition and financial choice for Australians by protecting and supporting our brokers, and championing the industry on behalf of our brokers

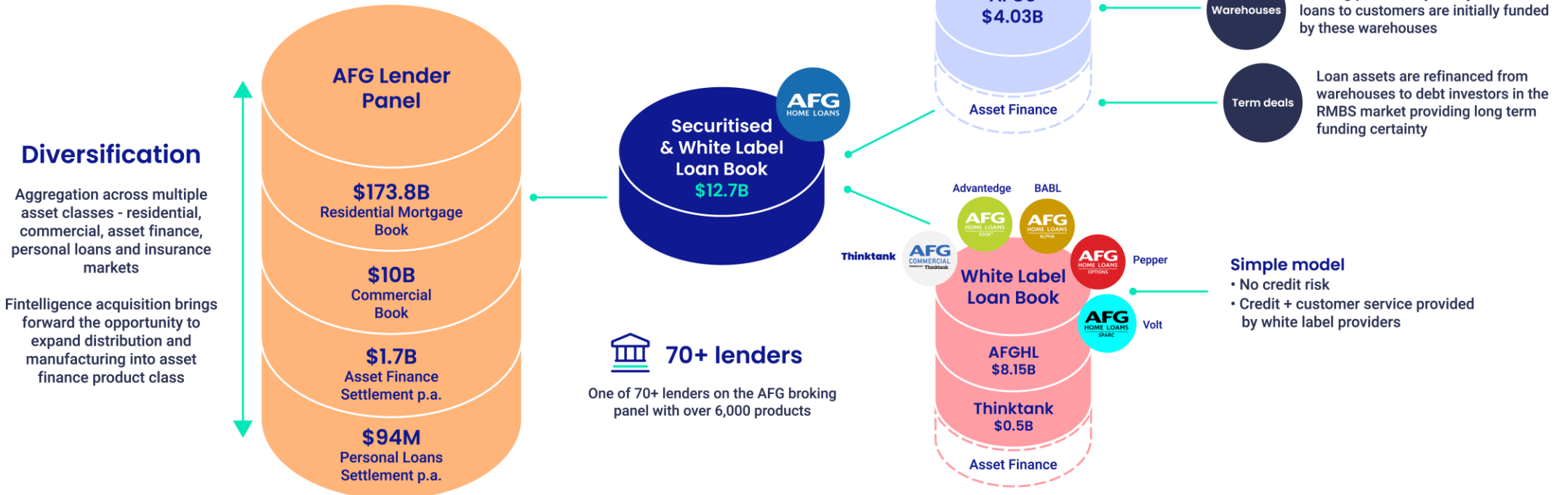


Our ambition

- To be the aggregator of choice for brokers and their customers, and for lenders. To lead the charge and challenge the status quo to create a fairer financial future for all Australians
- We provide a safe and compliant environment for our brokers to build their businesses and to protect their customers and our lender partners
- To drive competition and choice by providing a channel for lenders without branch networks, and by distributing and funding our own financial products for Australian consumers

AFG today

Diversified business model continuing to deliver growth in profitability and shareholder returns



Diversification
 Aggregation across multiple asset classes - residential, commercial, asset finance, personal loans and insurance markets
 Fintelligence acquisition brings forward the opportunity to expand distribution and manufacturing into asset finance product class

Income model

Opportunity

Margin driver

	Income model	Opportunity	Margin driver
Aggregation	Broker originated loans that are funded by lenders generate an upfront and trail commission – majority of which is paid out to brokers	Increase monthly originations by AFG brokers	Average Upfront net of clawbacks of 60bps and Trail 16bps Average payout ratio of 94.4%
White Label	White label loans generate an additional fee for marketing and distribution	Increase penetration of AFG Home Loans and AFG Commercial (provided by Thinktank) expand into other asset classes such as asset finance (Fintelligence)	
Direct Lending	RMBS AFG Securities loans generate a Net Interest Margin (NIM)	Seek to fund a greater share of AFG Home Loans by AFG Securities and expand into other asset classes such as asset finance (Fintelligence)	NIM of 172bps per annum on the AFG Securities book in HY22

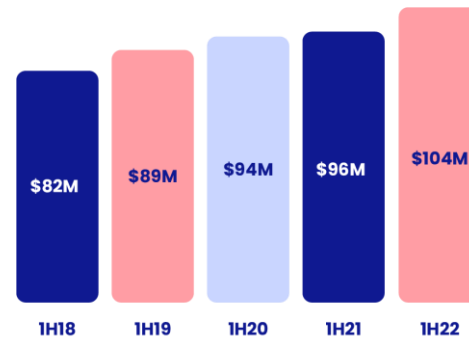
Financial strength supports growth

Low risk/high value annuity style assets, aggregation and white label trail books, and AFG Securities loan book providing strong cash flow

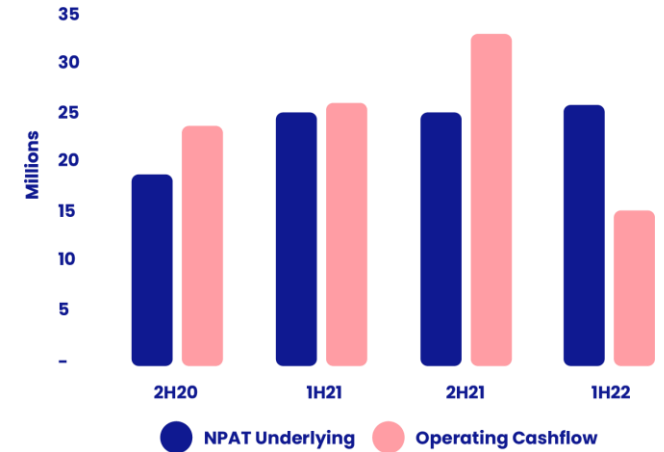
Capital light business model, growth through acquisition with commensurate or measurable returns and a record of the acquisitions adding real earnings value

1. Net unrestricted cash of \$31.6m (net of \$52 million debt facility)
2. Trail book net asset of \$104 million
3. High performing, valuable investments in associates with a balance sheet value of \$28.4 million, which does not represent fair value, AFG's share of profit for the half was \$2.6 million
4. Includes AFG initially funding the mezzanine layer of a third warehouse until the mezzanine funder steps in
5. Net cash and other financial assets of \$225 million provide core balance sheet strength

Total Trail Book Net Asset



Cash Flow vs. Underlying NPAT



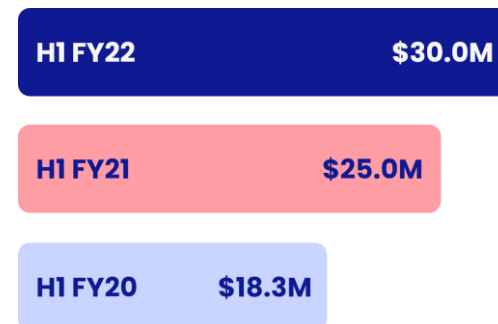
	Note	Dec 2021 \$000's
Unrestricted cash		84,094
Debt facility		(52,500)
Net unrestricted cash	1	31,594
Trail book	2	103,771
Investments (Thinktank and MAB)	3	28,381
Other asset (Volt)		15,000
Subordinated notes	4	46,338
Unrestricted cash, net trail book and investments	5	225,084

HY22 results highlights

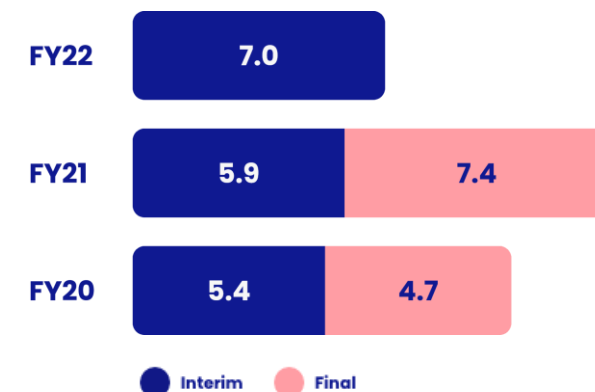
Diversified business model continuing to deliver growth in profitability and excellent shareholder returns

- Strong financial performance for the half with growing confidence for the balance of the financial year
- Excellent growth in our own branded products with a strong trend emerging of an increased proportion of higher margin products
- Acquisition of Fintelligence brings forward our opportunity to drive future margin enhancement in a new asset class
- Diversification strategy will drive organic growth. Acquisition opportunities will continue to be stringently assessed to ensure commensurate returns and the addition of real earnings value
- Mortgage brokers now the dominant channel at 67% market share. Customers value the competition, choice and convenience a broker provides. AFG is well placed to continue to capitalise on this trend
- Strong cash flow generating capability empowering the confidence to enhance historical dividend policy to a record interim dividend of 7.0 cents per share – an increase of 19% on HY21
- Both major political parties supportive of existing broker remuneration model
- AFG's growing digital ecosystem will significantly accelerate value creation, delivering value to our broker network, our lender partners, and our customers
- \$630 million market cap and a strong balance sheet. \$225m in net cash¹ and other financial assets

Reported NPAT up
20% to \$30.0M



Interim dividend up
19% to 7.0 cents per share



HY22 Financial Results

	1H22 \$000's	1H21 \$000's	
Total Revenue	481,233	366,386	31%
Gross Profit	61,298	49,686	23%
NPAT reported	30,033	24,967	20%
NPAT underlying	25,964	24,880	4%
Net cash from operating activities	14,895	25,788	(42%)
Net Interest	25,119	21,416	17%
Net Interest Margin	172 bps	179 bps	(4%)
Financial metrics	1H22	1H21	
Reported EPS	11.0 cents	9.2 cents	20%
Number of shares (diluted)	272,821	271,578	0%
Dividends % of underlying profit excluding share of profit of associates	81%	70%	11%
Dividends % of underlying profit including share of profit of associates	73%	64%	9%
Reported ROE ¹	29%	27%	3%
Reported P/E ratio ¹	10.8 x	15.0 x	(29%)
EV/EBITDA	7.2 x	9.0 x	(20%)

- Revenue up 31% in HY22, with higher settlements and growing loan books across product classes
- Reported NPAT \$4.1m higher than underlying NPAT as higher run-off is offset by high upfront activity. Cashflows from the trail book are actuarially proven
- Net interest is 17% higher in HY22
- Strong growth in the AFG Securities loan book, up 36% to over \$4 billion at December 2021
- NPAT up 20% in HY22
- Operating cash flow is down following a commission timing difference at 30 June 2021
- Total dividend paid at 73% of underlying profit *including* share of profit of associates

HY22 Summary Cash Flow

AFG maintains a capital light business model with strong cash flow generation. Trail book and AFG Securities growth supports the ongoing cash flows generated by the business model

- Net cash from operating activities is down following timing reversal of a large commission receipt and payment
- Net interest is up 17% driven by the growth in the AFG Securities book with the NIM beginning to be supported by a larger proportion of higher margin products
- Includes ongoing investment in technology in HY22 as part of the CRM build
- Acquisition of Fintelligence in the half as well as new debt facility
- Net loans to borrowers and other financing activities increases driven by higher AFG Securities volumes

	1H22 \$000's	1H21 \$000's
Cash flows from Operating activities		
Cash receipts from customers	353,643	288,911
Cash paid to suppliers and employees	(350,523)	(272,645)
Interest received	50,681	45,078
Interest paid	(25,563)	(23,661)
Income taxes paid	(13,343)	(11,895)
Net cash generated by operating activities	14,895	25,788
Investment in MAB	-	(3,700)
Investment in Fintelligence	(50,509)	-
Purchase of intangible assets	(5,332)	(2,630)
Net loans and advances to borrowers	(634,950)	(52,718)
Other cash flow from investing activities	453	759
Proceeds from debt facility	52,500	-
Dividends paid	(19,916)	(12,614)
Other cash flows from financing activities	661,851	74,712
Net increase in cash and cash equivalents	18,992	29,597
Cash and cash equivalents at the beginning of the period	226,048	161,528
Cash and cash equivalents at the end of the period	245,040	191,125
Cash reconciliation		
Unrestricted cash	84,094	116,656
Restricted cash (Securities)	160,946	74,469
Total cash	245,040	191,125

HY22 Summary

Balance Sheet

Well capitalised net cash balance sheet with unrestricted cash, trail book assets, financial assets and subordinated capital totaling \$225 million

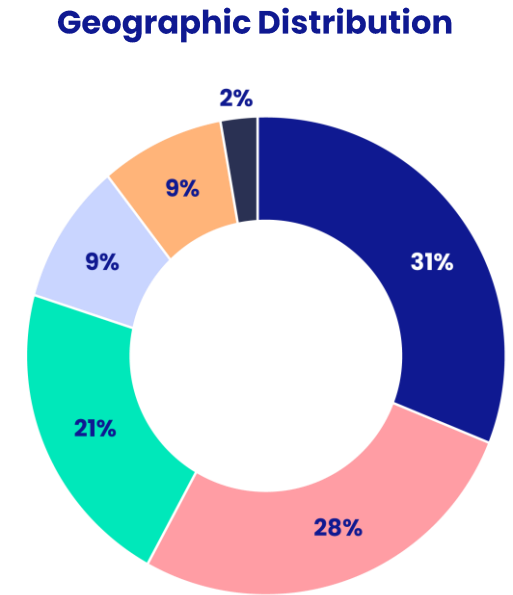
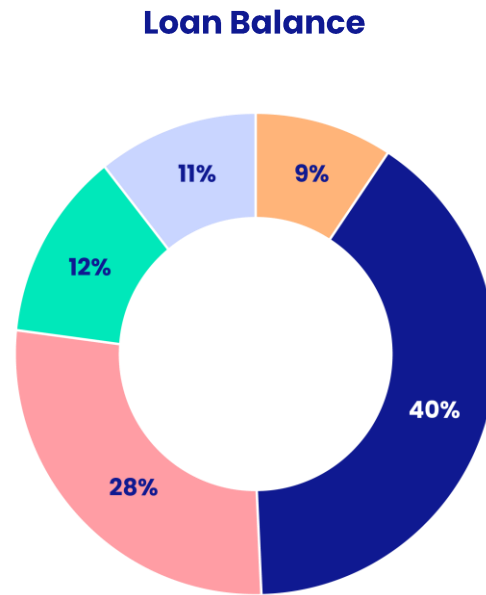
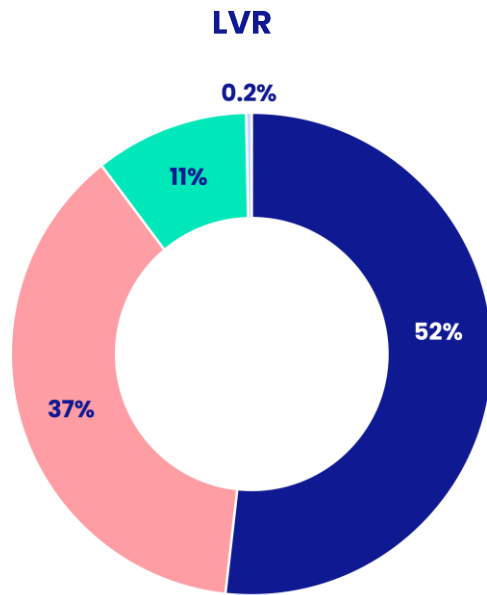
Notes:

1. Investment in Volt Bank at 31 December 2021
2. Trail book accounting including Residential, AFG Home Loans and Commercial trail books. Total net asset is now \$104 million
3. AFG Securities programme including \$46.3million of subordinated notes
4. Investment in Thinktank and Mortgage Advice Bureau
5. Investment in technology
6. Goodwill recognised for Fintelligence
7. Includes trail book accounting liability and general trade creditors and accruals

	Note	Dec 2021 \$000's	Dec 2020 \$000's
Assets			
Unrestricted Cash		84,094	116,656
Restricted Cash		160,946	74,469
Receivables and other assets		15,694	10,861
Financial Asset	1	15,000	-
Contract Assets	2	1,121,021	1,005,824
Loans and advances	3	4,042,472	2,972,881
Investment in associates	4	28,381	23,046
Intangible assets	5	34,208	5,807
Goodwill	6	56,950	-
Total assets		5,558,766	4,209,544
Liabilities			
Trade and Other payables	7	1,120,799	1,003,494
Interest bearing liabilities	3	4,122,232	2,990,745
Debt facility		51,984	-
Non interest-bearing liabilities		18,200	-
Employee benefits		4,301	4,575
Deferred tax liability		26,705	19,813
Total liabilities		5,344,221	4,018,627
Net assets		214,545	190,917
Equity			
Share capital		102,125	102,157
Reserves		(12,210)	2,949
Retained earnings		106,430	85,811
Total equity attributable to equity holders of the Company		196,345	190,917
Non-controlling interest		18,200	-
Total equity		214,545	190,917

AFG Securities Portfolio

Significant book growth achieved while maintaining overall credit quality



Our investments

Strategic investments have expanded our aggregation, technology, distribution and lending capabilities, and will continue to drive growth for shareholders



Commercial Mortgage lending products



Alternative residential aggregation model utilising best practice from the UK's leading broking model



Better customer experience shared with AFG Brokers and AFGS products

White label lending product and digital banking technology



Leading Asset Finance technology

Asset Finance distribution & potential Asset Finance lending products



Advanced workflow management software available to all brokers across the industry