

27 November 2020

**AFG**

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Market Announcements Office  
ASX Limited  
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SYDNEY NSW 2000

Dear Sir/Madam

**2020 AGM ADDRESS TO SHAREHOLDERS**

The Company will address shareholders today at its Annual General Meeting to be held at 9:00am Western Standard Time at Level 4, 100 Havelock Street, West Perth WA.

Attached is a copy of the joint Chair and CEO address and accompanying presentation.

The live feed of the AGM can be accessed at: <https://webcast.openbriefing.com/6601/>

Authorised for disclosure by:



**LISA BEVAN**  
Company Secretary

## Chairman

Good morning ladies and gentlemen.

On behalf of the board and management of AFG I would like to welcome you to Australian Finance Group Limited's 2020 Annual General Meeting.

As I am located in New South Wales due to COVID-19 travel restrictions I am unable to attend in person today and am joining via teleconference. I will therefore keep my Chairman's address brief and AFG Non-Executive Director Melanie Kiely will take responsibility for the formal business of today's meeting following the joint Chair and CEO address.

To recap the year that was, the 2020 financial year has been highly successful for AFG. AFG reported a net profit after tax of \$38.1 million, a 15% increase year on year.

All divisions of the company have delivered growth and overall lodgements were up 22% year on year. Our combined residential and commercial loan book is sitting at \$163 billion, supported by 2,975 brokers now accessing over 70 lenders on our panel.

AFG spent the first part of the Financial Year considering and managing the potential flow-on effects from the Feb 19 findings of the Hayne Royal Commission and its proposed regulatory recommendations; we announced the Connective merger in Aug 19; COVID-19 struck the Australian community in Feb 2020; and all the while we have been proceeding with the implementation of an improved broker technology platform. It has indeed been a very busy 18 months.

I would like to thank AFG staff, our brokers, and my fellow board members for their support of the company and each other, during what has been a remarkable and challenging year.

Once again, I would like to thank you all for your attendance and for your continued support of AFG. I will now hand over to our CEO, David Bailey.

## CEO

Thank you Tony. I would also like to extend my appreciation to those of you able to attend in person and for all shareholders who have taken the time to participate in today's meeting through the proxy voting process.

As Tony has touched upon, AFG has had a very successful year. Our annual results released in August have demonstrated the company's resilience during a time of extraordinary upheaval in the economy, reporting its best financial result to date. AFG's Residential loan book is now at more than \$154 billion, representing growth of 5% on FY19.

Today, rather than focus on the year that was, I propose to discuss the past few months and our view of where the market may be headed, especially given how rapidly the market is moving.

Due to a range of factors we've been preaching a more moderate impact on residential pricing since the beginning of the pandemic – although less alarmist than others where the press can accelerate the spiral of pessimism. So, in much the same way today, we would be reading less into the immediate bounce back that's being reported now. Perhaps preferring a slow build but thankfully not from the 30% decline that others were forecasting.

Turning to our current trading, I will start with our residential broking division. You may remember that our September quarter mortgage index reported record lodgement activity. Given the high level of economic activity across the broader economy, it is pleasing to see October volumes continue the momentum.

Significant government incentives at both a federal and state level have targeted the First Home Buyer market. As a result, First Home Buyer market share activity has increased to 23% in October, up from 15% in the same period last year. The major lenders have been dominant in this segment, capturing 65% of loans issued to First Home Buyers in October.

Whilst remaining stable, the refinance boom evident in the months during the broader national lockdown now appear to have returned to more traditional levels. From a peak of 38% in April 2020 to 21% in October. This is a decrease year on year from 26% in October 2019.

Upgraders have maintained a strong position in the market. Those who are confident in their own personal financial circumstances during the pandemic are looking for opportunities to move to a larger home. With the increased proportion of first home buyers in the market and the earlier refinancing activity, the average loan size is flat compared to October 2019.

A look at October trading shows increases in lodgements across the country. Lodgement volumes for October exceed \$6.7 billion. This is the highest figure the company has ever recorded and represents a 16% increase from October last year. WA saw the largest percentage increase in volume with lodgements increasing 41% from the same period last year. This was followed by Queensland with a 30% increase and South Australia with 25%. New South Wales and Victoria also recorded year on year increases of 7% and 11% respectively.

As brokers have navigated the challenges of this period of market disruption, their role as a trusted support for their customers has meant they have continued to deliver competition amongst lenders and choice to our customers across the country. The major lenders have seized the opportunities presented by favourable funding conditions and have aggressively targeted market share growth with generous cash back offers and very competitive fixed rates for new customers. This has seen the major lenders regain market share from the non-majors. They now hold 60.1% of the market, up from circa 52% in the same period last year.

The non-ADI's ability to compete and retain existing customers in the residential mortgage market is being negatively impacted by the very low funding pricing available to ADIs through the RBA's Term Funding Facility support package. Whilst we are very supportive of the government's actions to ensure liquidity in the market, we are hoping to see non-ADI lenders, including our own AFG Securities business, be afforded access to similar funding lines. The introduction has led to unintended negative consequences for competition.

Looking at our own securitisation business, we slowed lending in the last quarter of FY2020, due to the potential of an ongoing dislocation in the funding markets. The uncertain outlook necessitated a cautious approach to lending for a period and was a key reason for the equity raise conducted in May 2020. However, funding markets returned at a faster rate than expected and with support provided by the AOFM, the AFG Securities division is now growing again. Subsequent to the equity raise we completed two term transactions totalling \$1.2 billion. This includes \$500 million in our inaugural non-conforming trade.

Both issues were well supported across the market from both domestic and international investors, which is testament to the quality of our originations and ongoing customer management. I am also pleased to report that our hardship and arrears numbers in the AFG Securities loan book continue to be better than a large number of other lenders. Those customers in full deferral remain at 0.38% of our total book. Those entering into a payment arrangement, mainly converting to Interest Only, sit at 1.60%. Combined, this percentage of the book sits at 1.98% which is significantly inside the circa 10% initially reported to the market at the time of our equity raise in May 2020.

On the regulatory front, our preparations are well underway for the introduction of the new legislative requirements of a Best Interests Duty for mortgage brokers and for the proposed changes to the responsible lending laws. We took pre-emptive steps at the beginning of the year to prepare for the introduction of Best Interests Duty and demonstrate to customers that they have always been, and will remain, the number one priority. Our brokers are well positioned to meet the new requirements.

Looking at the market, today we are seeing property prices being supported by a strong underlying demand for residential mortgage finance. Record low interest rates are expected to be maintained for an extended period and in fact the RBA has signalled this.

The federal government's budget announcements included a welcome focus on home ownership as one of the pillars of a return to growth. Their expenditure on measures to increase employment and investment and targeted measures to help first-home buyers, and in turn stimulate the construction industry, supports our industry. The proposed tax cuts will help household budgets, which is a positive for homebuyers. As a major intermediary for access to credit, brokers will continue to play a vital role for homebuyers and, increasingly, for business borrowers.

Finally, with the proposed merger with Connective Group Pty Ltd, we still await satisfaction of the non-customary condition outlined at the time the transaction was announced, a decision by the courts surrounding the Connective shareholding dispute.

In conclusion, AFG remains resilient and well positioned to expand our already significant footprint in the Australian market. I would like to extend my thanks to our staff for their adaptability and commitment to the company as we dealt with office shutdowns across the country. And to our network of brokers for their unwavering support of their customers during these extraordinary times.

I look forward to another successful year for the company and I thank you for your continued support of our business.

I would now like to hand over to Melanie to conduct the formal business of the meeting.

**AFG**

**2020**

**ANNUAL GENERAL MEETING**

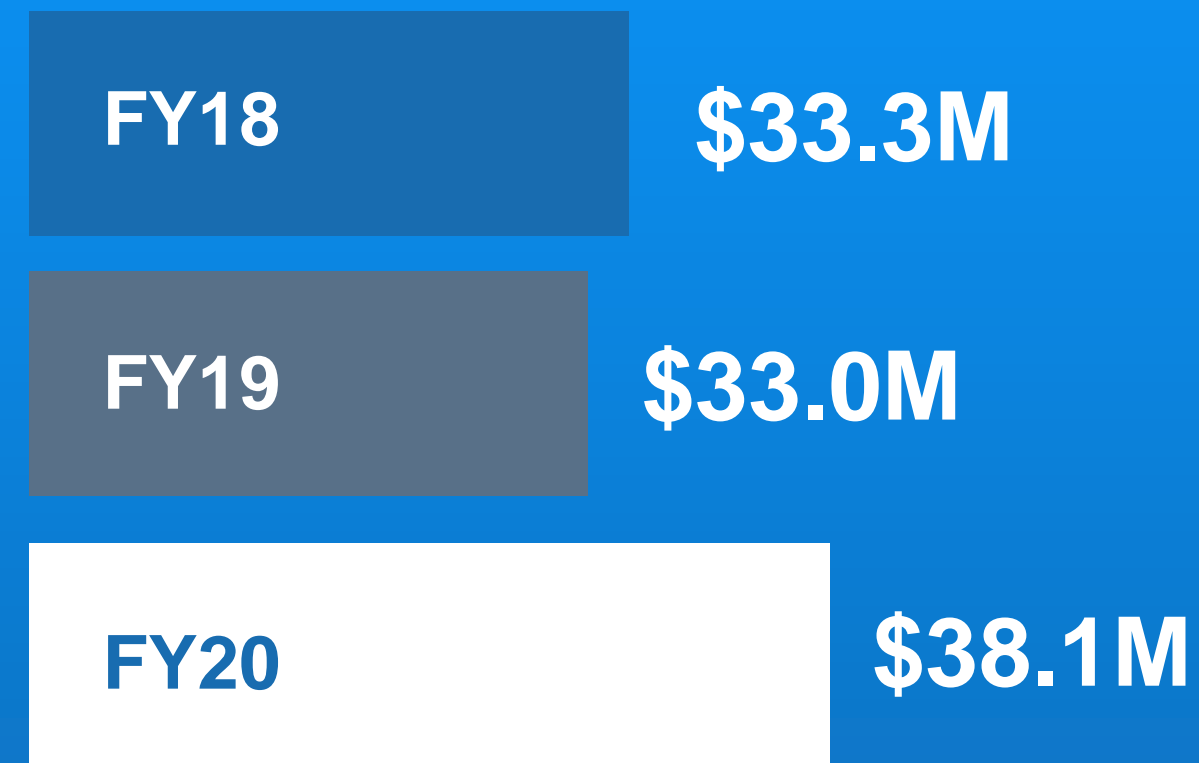
# Agenda

1. Introductions and housekeeping
2. Chairman's address
3. CEO's address
4. Formal business
5. Close

**AFG**

**Chairman  
Tony Gill**

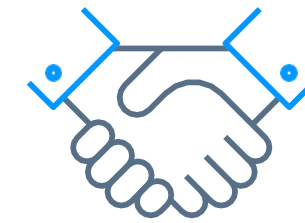
# FY20 results - Highlights



Reported NPAT up 15% to \$38.1M



FY20 Residential lodgements up  
**22%**



**2,975+**  
Brokers



Residential and Commercial  
trail book up to  
**22%**



**70+**  
Lenders



**AFG**

**Chief Executive Officer**  
**David Bailey**

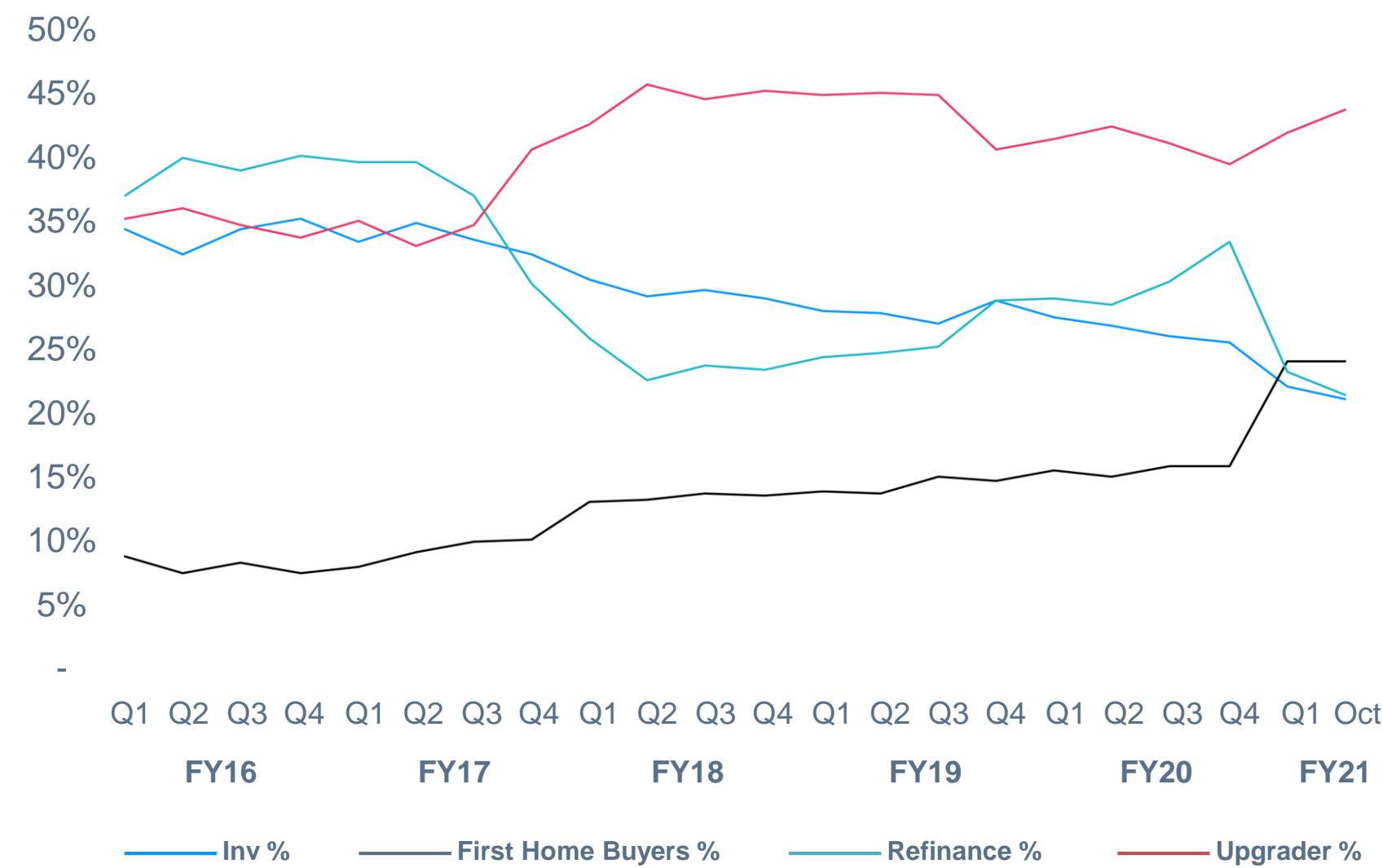
# Residential loan book growth

- Residential loan book \$154 billion
- 5% growth on FY19



# Trading update

## Customer type



## First Home Buyer %



# October 2020 trading

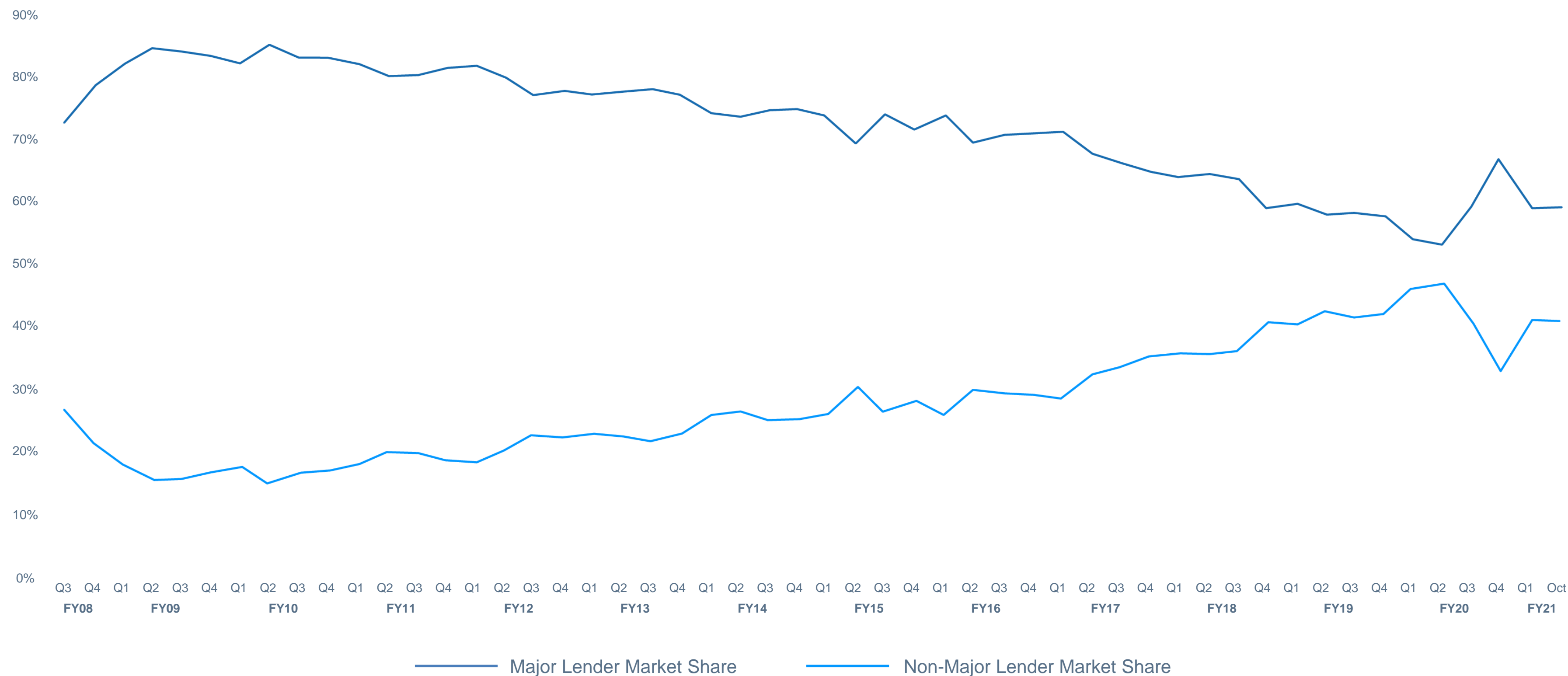
- Record lodgement month in October 2020, with \$6.7 billion total residential, up 16% on October 2019
- Residential lodgement growth evident across all states

## Comparison of October Lodgements

Change from October 2019

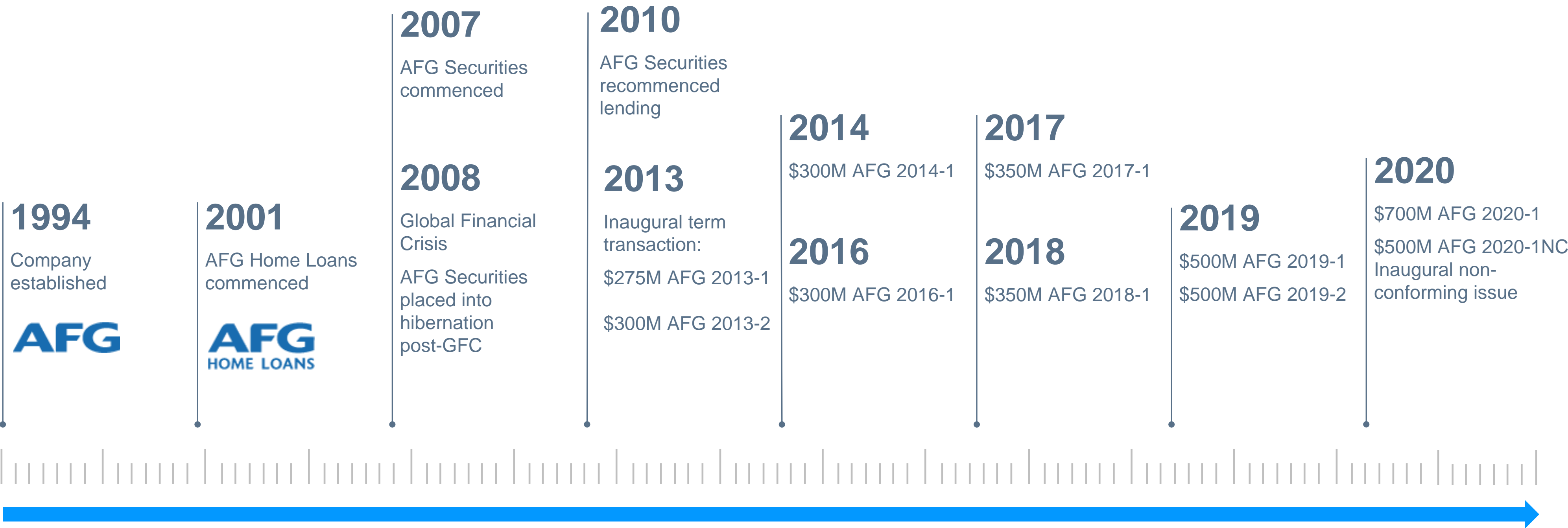


# Major vs Non-Major market share



# AFG Securities

Ten term transactions issued since 2013, \$4.075 billion



# AFG Securities Hardship

COVID-19 hardship and  
arrears numbers  
continue to improve

Support package	Description	% loan portfolios as at		
		7 May	21 August	19 November
COVID-19 hardship	Deferral of principal and interest	4.98%	2.03%	0.38%
COVID-19 arrangement	Change repayment type to interest only for a period	4.30%	3.18%	1.60%
COVID-19 arrangement other	Reduced payments or arrangement to draw on advance prepayments	0.28%	0.11%	0.00%
	Total	9.56%	5.33%	1.98%

# Looking ahead



AFG brokers well positioned to meet the new Best Interests Duty requirements



Strong demand and record low interest rates likely to be in place for some time



Federal government has targeted measures to support employment and investment



Brokers continue to play a vital role for homebuyers and business borrowers



AFG remains resilient and well positioned for growth





**Non-Executive Director**  
**Melanie Kiely**

**AFG**

**Voting by Poll**

**AFG**

**Q&A**  
**Thank you**

**AFG**

**Formal Business**



# Notice of Meeting

# Items of Business

## Item 1:

### Financial Reports – financial year ended 30 June 2020

The financial report, director's report and auditor's report for the financial year ended 30 June 2020 is tabled for discussion.

# Items of Business

## Item 2:

Election of Directors

# Items of Business

## Item 2:

### Re-election of Brett McKeon as a director of the Company

In accordance with the Notice of Meeting the resolution to be put before the members is:

*“That Brett McKeon, who retires as a director of the Company in accordance with rule 8.1(e) of the Company’s constitution, and being eligible, be re-elected as a director of the Company.”*

#### Summary of proxies received

	FOR	AGAINST	OPEN	ABSTAIN	TOTAL ELIGIBLE
<b>NO. OF SHARES</b>	121,106,278	164,533	223,971	175,940	121,494,782
<b>% OF ELIGIBLE VOTES</b>	99.68%	0.14%	0.18%		
<b>NO. OF PROXY FORMS</b>	143	4	30	5	



# Items of Business

## Item 3:

### Adoption of Remuneration Report

To consider, and if thought fit, to pass the following in accordance with section 250R(2) of the *Corporations Act 2001(Cth)* (**Corporations Act**)

*“That the Remuneration Report for the Company for the year ended 30 June 2020 be adopted.”*

#### Summary of proxies received

	FOR	AGAINST	OPEN	ABSTAIN	TOTAL ELIGIBLE
<b>NO. OF SHARES</b>	119,468,647	359,901	224,534	1,617,640	120,053,082
<b>% OF ELIGIBLE VOTES</b>	99.51%	0.30%	0.19%		
<b>NO. OF PROXY FORMS</b>	109	32	31	10	

# Items of Business

## Item 4:

### Grant of 2021 LTI Award to Executive Director – Malcolm Watkins

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That approval be given, for the purposes of ASX Listing Rule 10.14 and sections 200B and 200E of the Corporations Act 2001 (Cth) and for all other purposes, to grant 17,140 Performance Rights to Executive Director, Malcolm Watkins, under the Company’s Long Term Incentive Plan as set out in the Explanatory Notes accompanying this notice of meeting.”*

#### Summary of proxies received

	FOR	AGAINST	OPEN	ABSTAIN	TOTAL ELIGIBLE
<b>NO. OF SHARES</b>	120,603,849	615,316	224,964	226,593	121,444,129
<b>% OF ELIGIBLE VOTES</b>	99.31%	0.51%	0.19%		
<b>NO. OF PROXY FORMS</b>	97	46	30	9	

# Items of Business

## Item 5:

### Ratification of Prior Issue of Shares

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

*“That for the purposes of ASX Listing Rule 7.4 and all other purposes, shareholders ratify and approve the issue of 12,979,760 fully paid ordinary shares in the Company previously issued at \$1.15 per share, as described in the Explanatory Notes accompanying this notice of meeting.”*

#### Summary of proxies received

	FOR	AGAINST	OPEN	ABSTAIN	TOTAL ELIGIBLE
<b>NO. OF SHARES</b>	77,433,871	129,365	225,858	43,881,628	77,789,094
<b>% OF ELIGIBLE VOTES</b>	99.54%	0.17%	0.29%		
<b>NO. OF PROXY FORMS</b>	119	13	32	20	

**AFG**

**Poll**

**AFG**

**Q&A**

**AFG**

**Thank you**

**AFG**

**Close**

# Items of Business

This presentation contains general information which is current as at 27 November 2020

The information is intended to be a summary of Australian Finance Group Limited (AFG) and its activities as at 23 November 2020, 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). This presentation does not take into account the objectives, financial situation or needs of any particular investor. You should consider your own objectives, financial situation and needs when considering this presentation and seek independent investment, legal, tax, accounting or such other advice as you find appropriate before making any financial or investment decision.

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