

27 August 2021

Australian Finance Group 2021 annual results

(ASX:AFG) Australian Finance Group Limited is pleased to announce another highly successful year with record settlements and growth across the business fuelling a new benchmark profit.

FY21 highlights

- Reported NPAT of \$51.3 million, underlying NPAT of \$49.6 million
- AFG Securities settlements of \$1.35 billion in line with FY20. H2 FY21 settlements are up 35% compared to H2 FY20. The loan book now sits at \$3.4bn – representing an increase of 17% on 30 June 2020.
- White label AFG Home Loans settlements increased 18% to \$2.1 billion
- Residential settlements of \$43.63 billion, an increase of 28%
- Combined residential and commercial loan book of \$175.7 billion, growth of 8% over FY2020
- Total RMBS issuances for the year of \$1.95 billion including our first non-confirming transaction.
- Final dividend 7.4 cents per share, generating a full year yield of approximately 5%
- Net Interest Margin (NIM) within AFG Securities of 178 basis points
- ROE of 27%
- Earnings Per Share (EPS) for FY2021 of 18.9 cents per share
- Cash and investments, including trail books and subordinated capital of \$282 million
- AFG remains important to the country's financial landscape with 1 in 11 Australian residential mortgages arranged by one of our 3,050 brokers, with access to more than 70 lenders
- Annuity-style net securitisation interest income and net cash received from trail books was up 20% to \$83m in FY21
- Commitment to lifting ESG reporting and accountability

Performance

AFG CEO David Bailey commenting on the full year result today said: "This is a record profit for the company reflecting the hard work of our staff and our brokers who now count in excess of 3,050. It represents another step change in the development of AFG. This past year has once again shown the resilience of our business and the core role our brokers play in delivering a competitive lending market and a service sought after by Australians building wealth in the residential market and in business enterprises across the country.

"Our brokers have experienced record demand for their services to Australian borrowers. Our core residential business increased by 28% this year to deliver \$43.6 billion in settlements.

"The success of our lending business, AFG Home Loans, and, in particular, our own securitised home loan products, remains a highlight. Despite a pandemic-initiated slowdown in settlements in the first quarter of FY21, the AFG Securities business has reported an excellent full year of settlements and at the end of the financial year has a loan book of \$3.4 billion," he said. "Since the end of the first quarter, momentum in this business has built, and importantly, lodgements in the second half were up 82% on the previous half.

"Whilst the Commercial lending market has been hit the hardest by COVID restrictions, activity in this sector also increased in the second half of FY21. Settlements for the full year were in line with FY20 however commercial mortgage settlements were up 23% in the second half of the year compared to the prior period. Our investment in commercial lender ThinkTank is also contributing strongly, with a \$5.3m contribution to profit reflecting an increase of 130%.

"With the country once again grappling with lockdowns in many states AFG is pleased to note we are not seeing high numbers of hardship requests come through AFG Securities' business," he said. "We do of course remain aware of the risks the shutdowns may have on the financial wellbeing of our customers and stand ready to respond if necessary, with supportive programs in place while customers get back on their feet."

Technology

AFG's new platform, CRM, is built on enterprise-grade technology and is a key pillar of AFG's wider technology toolkit. Plans for a staged migration across the AFG network are underway. "The migration of each broker to the CRM platform will be managed by AFG support staff, including the historical data transfer and seamless linkage with other key systems," he said. "A significant number of our brokers have been with AFG for many years, so it is a big task, but we are both excited and committed in every sense to a smooth transition and a great outcome."

As the financial year drew to a close AFG acquired an 8% stake in neobank Volt. "Volt's innovative technology combined with AFG's large distribution footprint will deliver competitive products to the market, and streamlined digital solutions for our brokers and their customers. Volt's digital banking services and technology platform will be utilised within our AFG Securities business to streamline credit decisioning and position our securitised products as a leader in the marketplace," he said.

ESG

This year, AFG has made significant inroads in reporting on the company's approach to ESG metrics. "Although reporting accountability for our ESG performance is relatively new, actions on those things that feed into the ESG metrics, are not new to AFG. We are, and have always been, focused on continuing to drive value for our investors and create a positive impact for our employees, brokers, customers, and the communities in which we operate."

"In FY21 we have measured AFG's environmental footprint, made public a number of activities that outline our approach to governance, and we have become Principal Partner of Foyer Foundation – an independent charitable organisation that works with young people at risk of, or experiencing, homelessness."

Company outlook

After a year of record growth, the company is well placed to continue delivering growth for shareholders and choice and competition for Australian mortgage customers. "In the residential market, government incentives are rolling back, and the Term Funding Facility offered to the major banks is no longer in place. At the same time, Residential Mortgage-Backed Securities (RMBS) markets are open and demand for Australian RMBS has meant the country's smaller lenders, including AFG Securities, are better able to compete," he said. "Our white label residential settlements are up 18% and we expect this to continue to increase with the inclusion of a Volt-funded white label AFG Home Loans product in the second half of FY22."

"Volumes across the network remain strong, we are capital light, we hold cash and investments, including trail books and subordinated capital, of \$282 million and combined with the annuity-style cash flow capabilities of our trail book, we are delivering positive returns for our shareholders. Our diversification strategy has taken hold and whilst continuing to invest in our core, we will look to pursue further diversification opportunities. Given the ongoing strong positive cash flow position of our business model, we are very pleased to pay an increased dividend of 7.4 cps."

"Whilst we remain alert to the risks presented by the health and economic challenges our community faces, we are confident AFG is well equipped to respond. We remain confident in the future of providing choice to borrowers and competition between lenders through the provision of a strong and efficient distribution platform. Our workforce is adept at working remotely when required and our broker network is a proven force in providing frontline support for their customers," he said.

As a major aggregator AFG is well placed to participate in the increased preference by Australian consumers to access home loan products through a broker. We remain very positive about the future of our company and our industry," he concluded.

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Analyst briefing

An investor presentation and Q&A session for AFG's annual results will be held on Friday 27th August 2021 at 10am (AEST). To participate in the call, please pre-register using the following link:

<https://s1.c-conf.com/DiamondPass/10014679-al85d3.html>

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

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