Market Release

AFG

22nd February 2019

AUSTRALIAN FINANCE GROUP HALF YEAR RESULTS 2019

Australian Finance Group (ASX: AFG) has today reported a robust first half result, demonstrating resilience in the face of challenging market conditions.

In an environment of intense scrutiny of the industry, tightened lending conditions and softening real estate markets across the country, the company delivered a cash profit increase of 2.2% to $14.72 million for the six-month period to 31 December 2018.

The first half performance showed AFG continuing to deliver returns through a sound core business and a successful strategy of earnings diversification, based on delivering choice, competition and value to Australian borrowers.

H1 FY19 highlights include:

- NPAT of $16.69 million
- Residential settlements of $17.2 billion
- AFG Home Loans (AFGHL) settlements of $1.73 billion
- Commercial settlements of $1.27 billion
- Combined residential and commercial loan book of $151.8 billion
- Securities loan book of $1.66 billion
- ROE of 35%
- Interim dividend of 4.7 cents per share fully franked

AFG Chief Executive Officer David Bailey said “We continue to build a strong, sustainable business despite challenging market conditions. AFG is delivering a diversified earnings stream, complementing our core residential and commercial aggregation business with AFG Home Loans, AFG Business and AFG Commercial Powered by Thinktank. More than half of our gross profit margin is now coming from diversified earnings.

“The high-margin AFG Home Loans business continued to grow, with settlements up 6% to $1.73 billion. The AFGHL loan book has now reached $8.4 billion, an increase of almost a third on the same period last year. With three white label funders and an expanded AFG Securities offering, AFGHL continues to protect against varying lender appetite. More than 21,000 people are AFGHL customers.”

Tightening credit conditions have impacted residential settlements, down 7% on H1 FY18 while the residential trail book grew 8% to $143.9 billion. Following periods of strong growth, Victoria and New South Wales both experienced a downturn this half driven by slowing market conditions.

CONTACT DETAILS

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Market conditions

The most significant upheaval facing the mortgage broking sector has been laid out in the recommendations of the Financial Services Royal Commission.

There have been encouraging signs that the Government and regulators recognise the value brokers deliver in lowering borrowing costs and broadening choice for consumers. As a result, both the Government and Labor Opposition have highlighted that any change to the broker industry must be introduced in a timely and considered manner. This is significant recognition for the sector and highlights the importance of a targeted engagement plan during 2019.

Mr Bailey said “With market share for the mortgage broking sector at an all-time high, customers clearly trust mortgage brokers. This fact should remain front and centre in the minds of policymakers.

“Mortgage brokers enhance competition in the home loan market, which leads to greater choice, lower loan pricing and improved service for all borrowers. If brokers were removed, borrowers would need to factor in branch subsidies to the cost of home loans. In addition, a fee-for-service means a new fee any time a customer wants to alter their mortgage or switch lenders. In effect, it creates a new exit fee for consumers.

“This is likely to further entrench bank power by forcing customers back into the branch and ‘handcuffing’ them to their lender. Without competition, homebuyers will be left with less choice and higher costs of borrowing.

“AFG is engaging extensively and positively with policymakers and will ensure our sector is represented in this process. While our commitment to delivering shareholder value will underpin our response to any regulatory changes emerging from the Royal Commission, the basic tenet is that preserving competition in Australian’s home loan market is good for both AFG shareholders and Australian consumers.”

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