# Half Year Results Presentation
2023

# Presentation Outline



AFG

# AFG Business model

Operating in deep markets…

AUSTRALIAN FINANCE MARKET

- Residential Mortgages
- Commercial Mortgages
- Equipment and Asset Finance
- Personal Loans

… with a range of financial services…

## Aggregation Services

**Broker originated loans** generate annuity style earnings through commissions, with brokers using AFG's platform services for a fee

Increase competition & choice for customers, providing connectivity & support to brokers accessing finance products from 70+ lenders

## Loan Distribution

**White Label loans** generate additional margin for AFG from marketing & distribution services

Utilising our broker network, assist with branding & distribution for select lenders to our brokers

## Loan Manufacturing

**AFG lending products** generate a Net Interest Margin on the loan book

Full finance product to customers. Leveraging AFG's data & experience to develop lending products

… to a broad customer base

AFG CUSTOMERS

**1 in 10** ⟷ **3,700+** ⟷ **70+**

1 in 10: Residential mortgages written by an AFG broker

3,700+: AFG Brokers

70+: Lenders on our panel including AFG securities

# AFG’s proven growth blueprint

| Markets | Aggregation Services | Loan Distribution | Loan Manufacturing | AFG Volume | Broker Share | AFG Share |
|---|---|---|---|---|---|---|
| | Provides scale & platform to diversify into new markets | Leverage scale – partner with lenders | Leverage scale – expand into higher margin lending | | | |
| Residential Mortgages | AFG | AFG Home Loans White label | AFG Securities | $189B Loan book | 72% | 10% |
| Commercial Mortgages | AFG | AFG Commercial powered by Thinktank | Investment in Thinktank<br>Planned further growth | $11B Loan book | 20-30% | 2% |
| Asset Finance | AFG + Fintelligence | Planned Growth | Planned Growth | $1.2B Settlements in H1 FY23 | | |
| Personal Loans/Other (inc new markets) | AFG | | | | | |

| Percentage of profit before tax | 34% | 66% |
|---|---|---|

Low — Product Margin — High

# H1 Highlights

## Earnings diversification

**Providing resilience & a strong platform for growth**

- **66%** earnings from **higher margin** lending products
- **$4.9b** AFG Securities loan book up **22%,** with NIM of **145bps**
- Commercial settlements up **14%** to **$2b**

## Strong balance sheet & cash flow generation

**Positioned to take advantage of growth opportunities**

- Record **$1b** RMBS issuance
  Arrears of **0.6%** with **$0 losses**
- Over **60%** cash earnings from annuity style income streams
- Capital light with **$200m** of liquid assets & investments

## Investing for growth

**Deliver efficiencies & scalable growth through the cycle**


- **Leading** broker services
- Investing in technology to **improve broker proposition** & **efficiently scale**
- Strategic investments **exceeding expectations**

# H1 Financial Summary

| Competitive advantage from being a leading aggregator | Diversification & strategic investments underpin earnings | Strong cash flow generation, driven by annuity style cash flows | Capital light business model, with high quality loan book | Delivering quality shareholder returns |
|---|---|---|---|---|
| Record H1 Gross Profit **$62.0m** | Underlying NPATA **$25.6m** | Operating Cash Flow **$26.9m** | Underlying ROE **25%** | Interim Dividend **6.6cps** |
| Residential settlements **$29b** | Reported NPAT **$21.9m** | Cash realisation **105%** | Arrears **0.6%** % of loans greater than 30 days | Dividend payout ratio[1] **70%** |
| Net Interest Margin **145bps** | Contribution from Strategic Investments **$5.9m** | Unrestricted Cash **$65m** | Investments & liquid assets **$182m** | Dividend yield[2] **8%** |

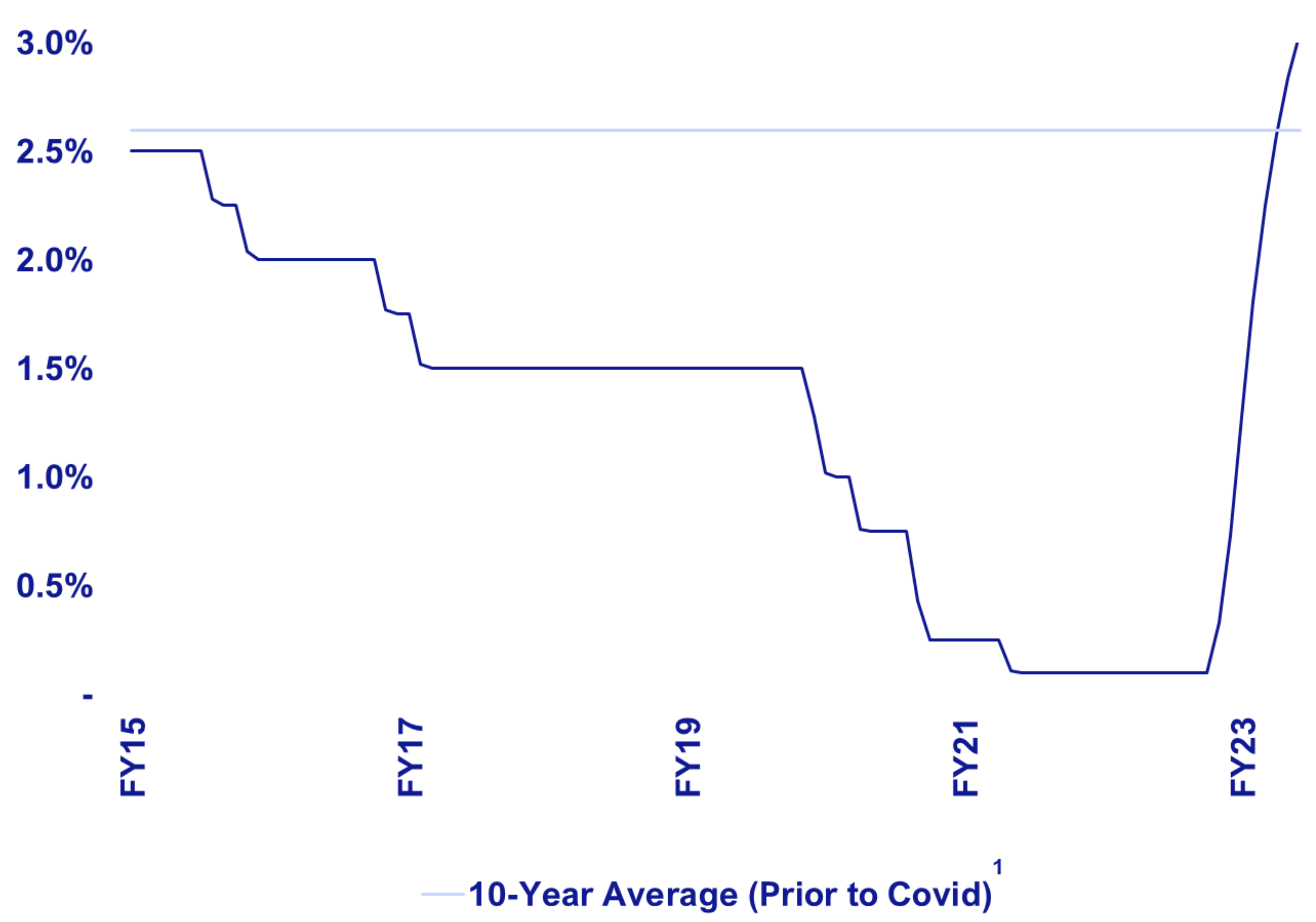
*1. Underlying*
*2. Based on share price as at 15 February 2023*

HALF YEAR RESULTS

# Operations update

# Policy intervention has slowed the housing market

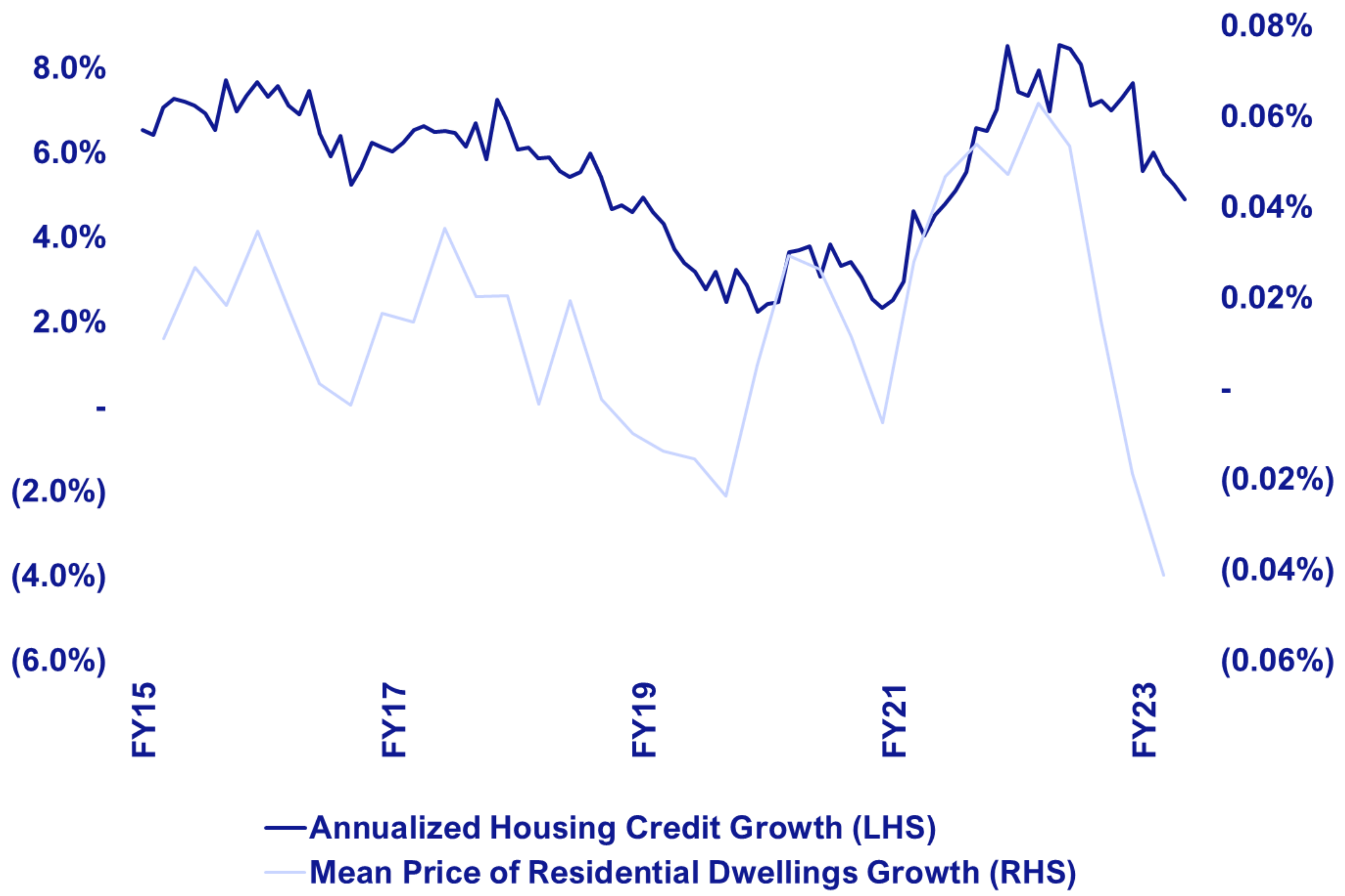
## RBA Cash Rate




Source: RBA

**Record low cash rate has been rapidly unwound, with the impact of consecutive increases still to flow through the economy**

## Housing Market




Source: RBA, ABS

**The rapid rise in cash rate led to a reduction in property prices at a rate not seen since the GFC**

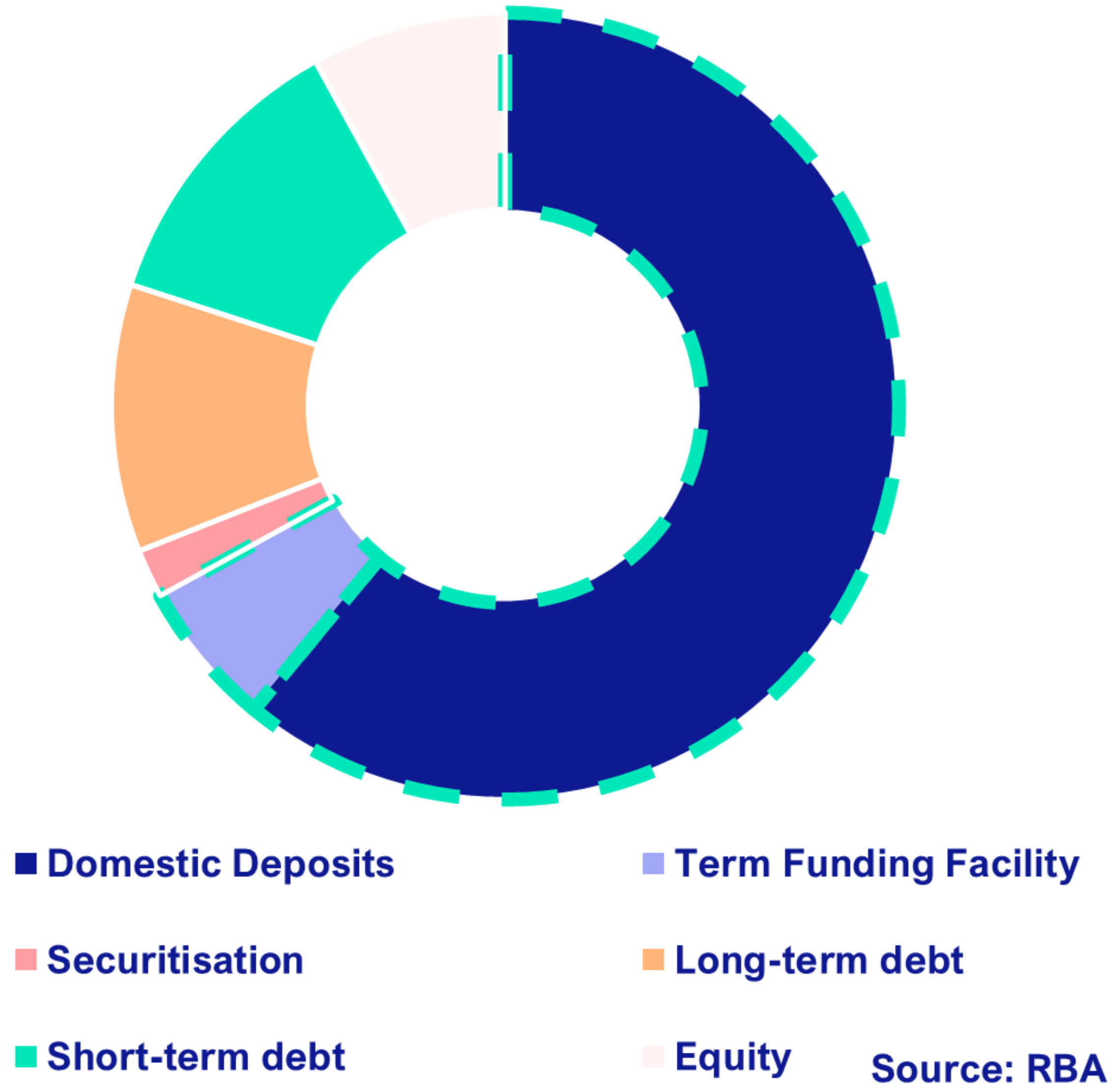
Although credit growth has slowed from record highs, it remains positive & in line with historical levels

More customers than ever selecting brokers helping to offset the impact of the credit slowdown

*1. Prior to Covid is up to 31/12/2019*

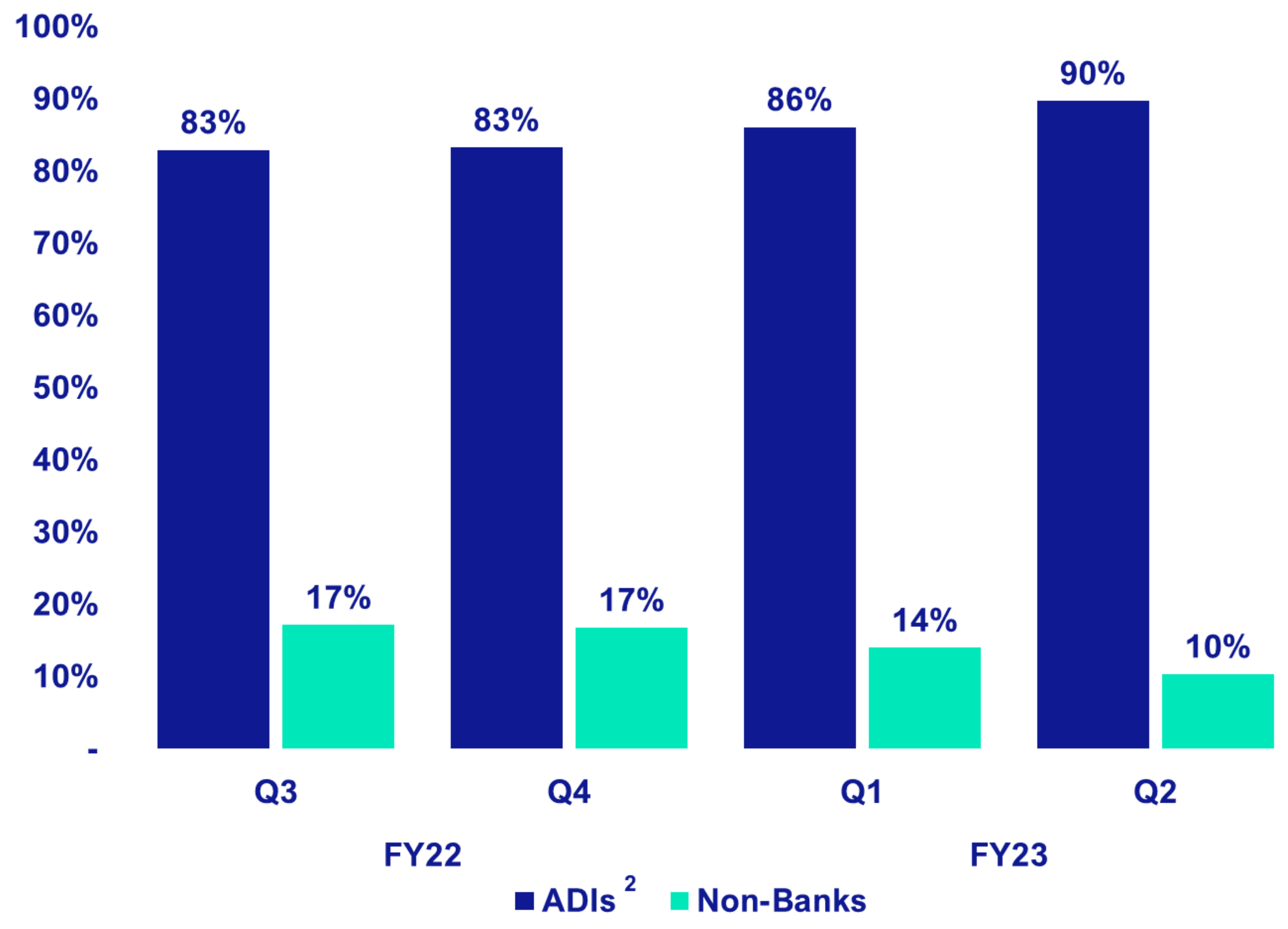
# TFF, record low deposit rates & cash back offers have led to ADI market share gains

### Major Bank's Funding Composition




Source: RBA March 2022

### Residential Lodgements Market Share




Source: AFG Index

**$188b TFF[1] stimulus & record low deposit margins has created an arbitrage for ADIs[2] & reduced non-bank's ability to compete**

AFG Securities is a non-bank lender & does not have access to retail deposits or the TFF as sources of funds

**The funding advantage led to market share gains for ADIs on new lending**

This funding advantage is expected to unwind in the short term, which should lead to an increase in competition & choice for consumers

*1. Term Funding Facility (TFF) was established by the RBA as part of their policy response to the effects of the pandemic to offer low-cost three-year funding to ADIs*
*2. Authorised deposit-taking institution (ADI's)*

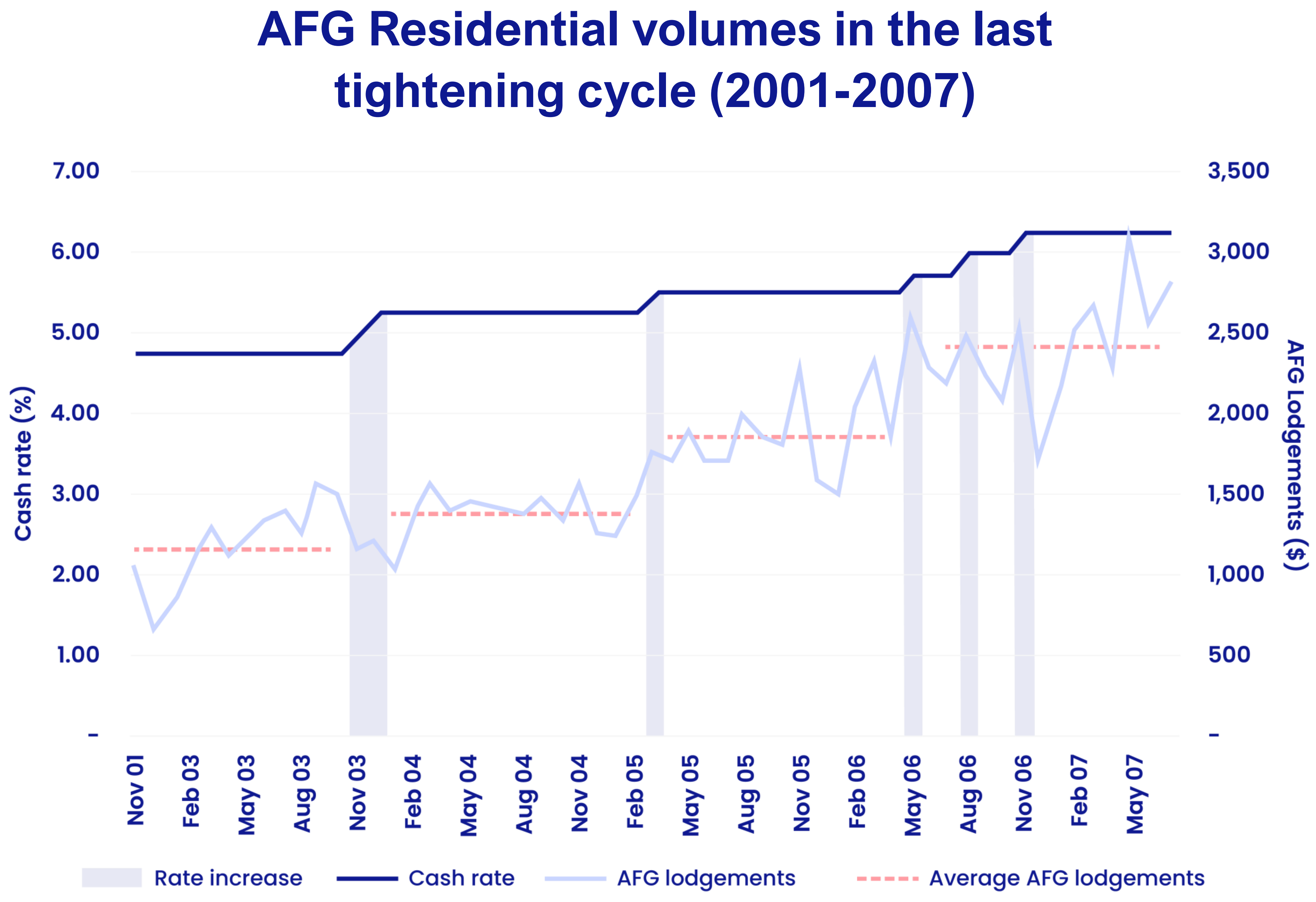
# AFG has proven resilient through cycles

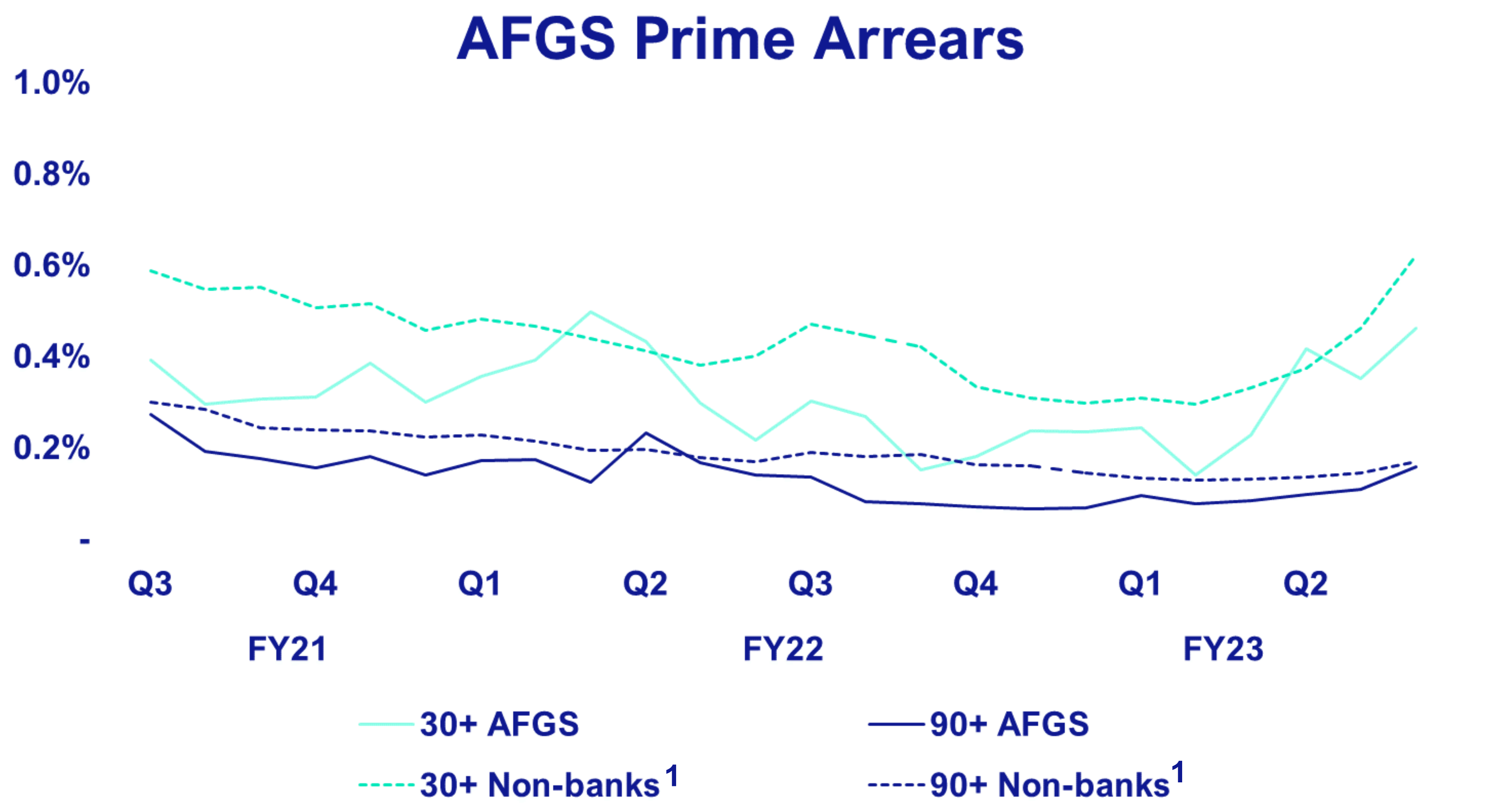
### Aggregation

- AFG has historically outperformed the collective Residential market for lodgement volumes during rising interest rate conditions
- The importance of brokers is evident, with the channel clearly preferred by customers & brokers for home loans & increasingly for SME

### Loan Manufacturing – AFG Securities (AFGS)

- Established credit assessment process leverages insights from over 25 years of data & extensive industry experience
- Loan book has 100% variable interest rate. This allows a quick response to changing market conditions & no exposure to the rate increase confronting customers as they reach the end of their fixed term
- Proactive management has resulted in arrears remaining low. As at January 2023, arrears greater than 30 days were 0.7%
- 91% of the book has an LVR[2] below 80%
- All loans originated above 80% LVR require individual LMI[3] policies, with LMI underwritten on a per loan basis by the LMI insurer
- No losses incurred in the reporting period
- Total loss provisions of $2.9m, with a cumulative loss history of $260k

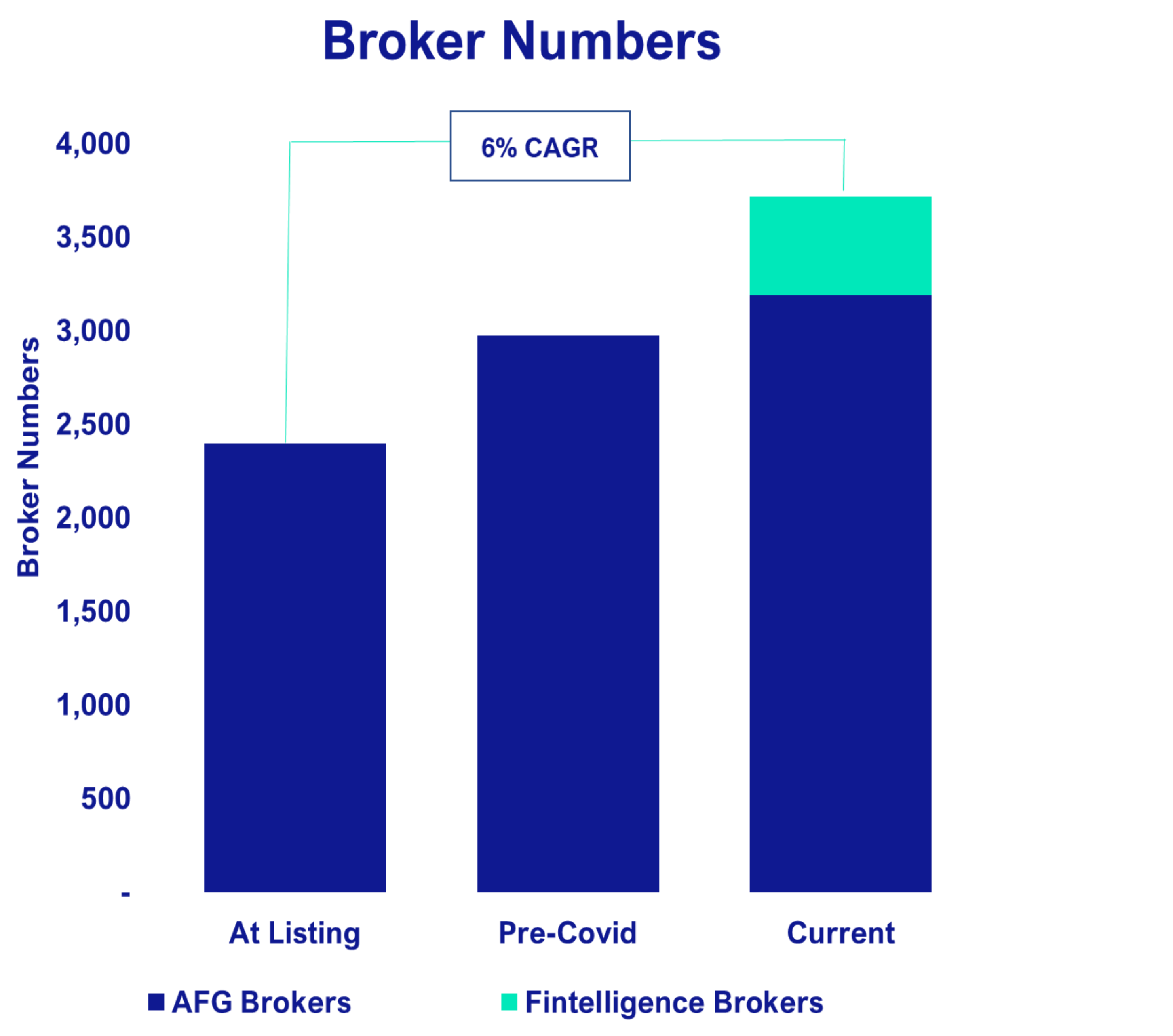


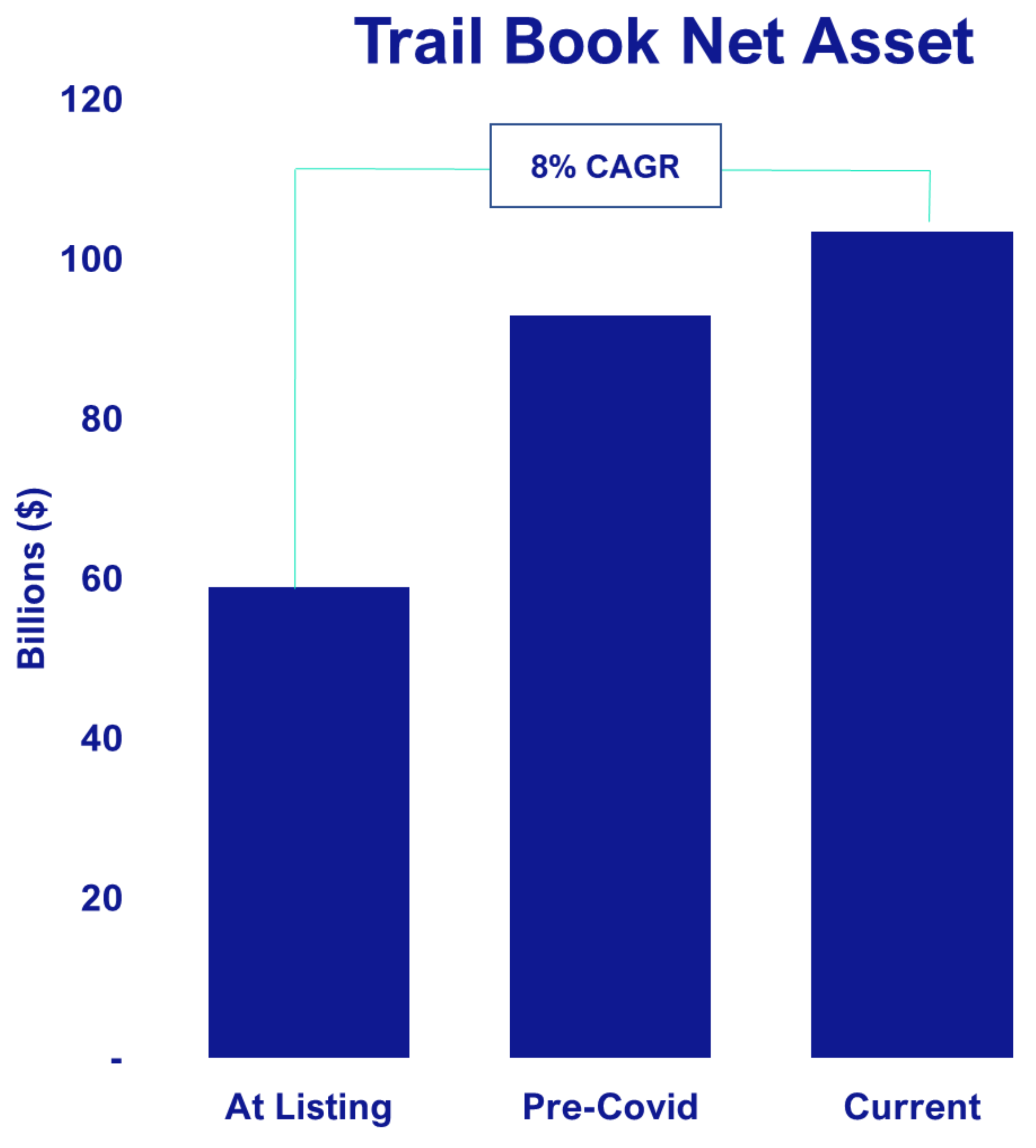



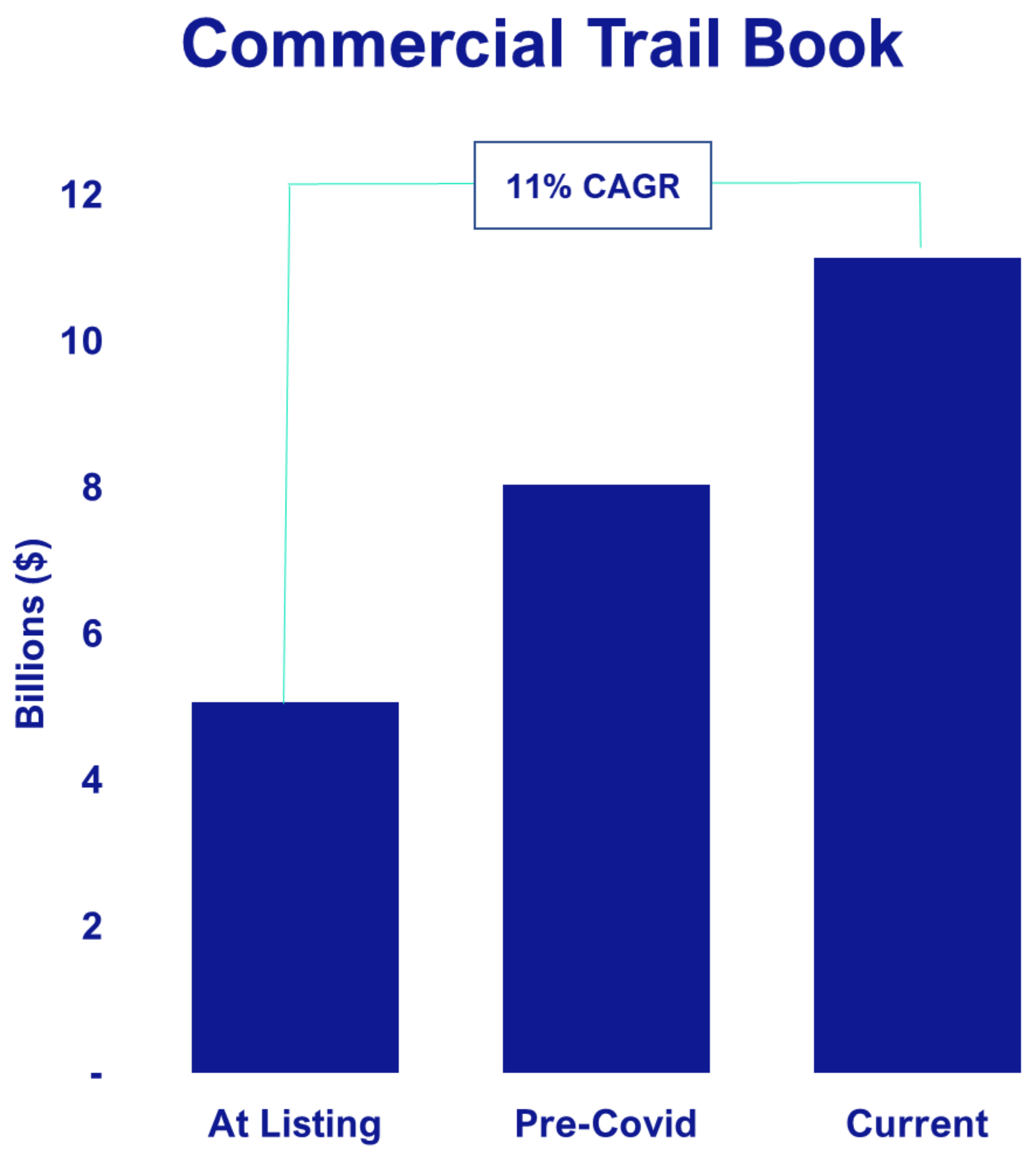

Source: AFGS, S&P

1. *Source: Standard & Poor's delinquency index of Australian prime mortgages for non-bank originators*
2. *LVR = Loan-to-value ratio*
3. *LMI = Lenders Mortgage Insurance*

# Our diversification strategy is proven & provides a growth platform




**AFG's large broker network provides the foundation for diversification into higher margin products & new markets**

AFG's diverse products & full service offering supports broker growth in a slowing market

**Strong growth in trail book net asset on the balance sheet**

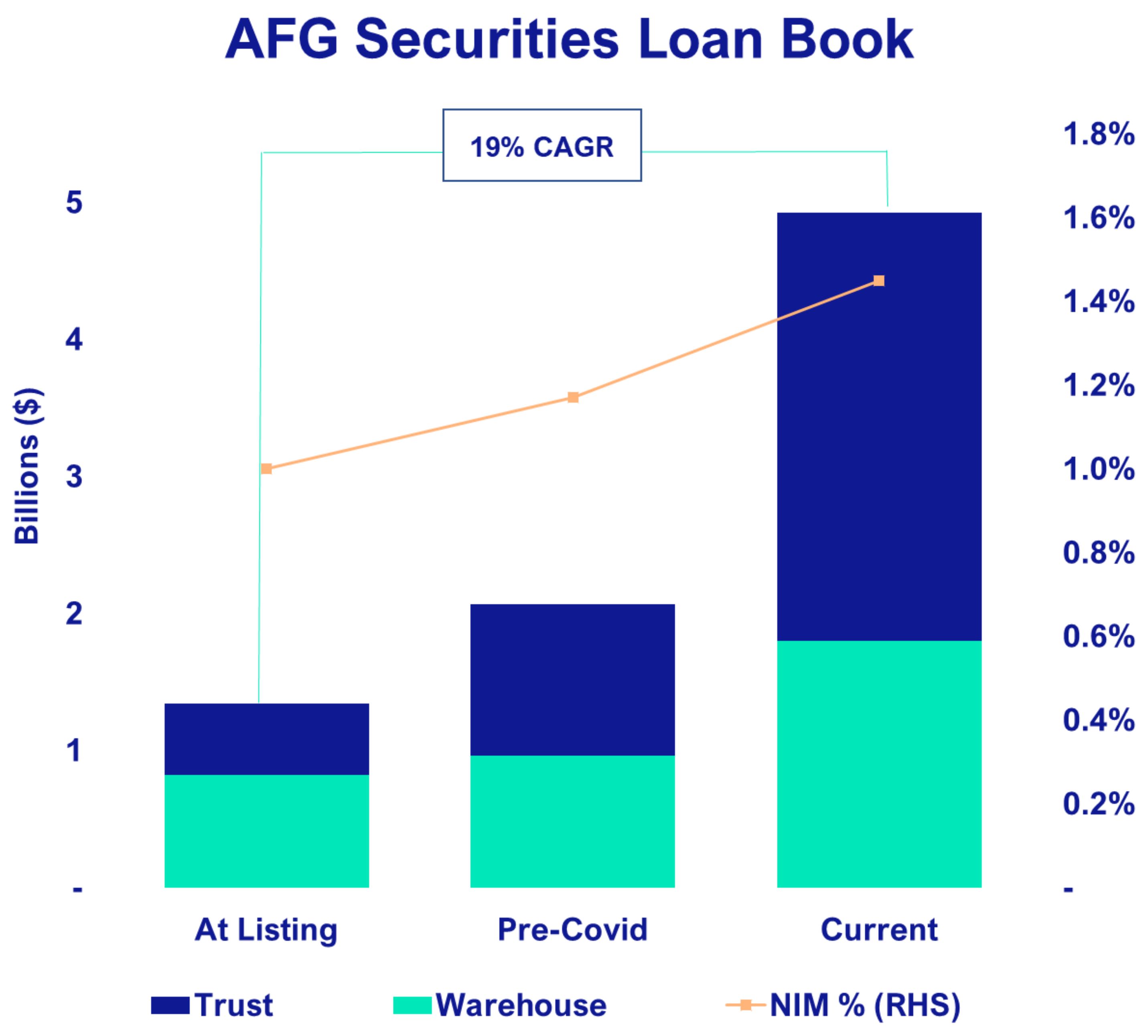
Represents annuity cash trail commission

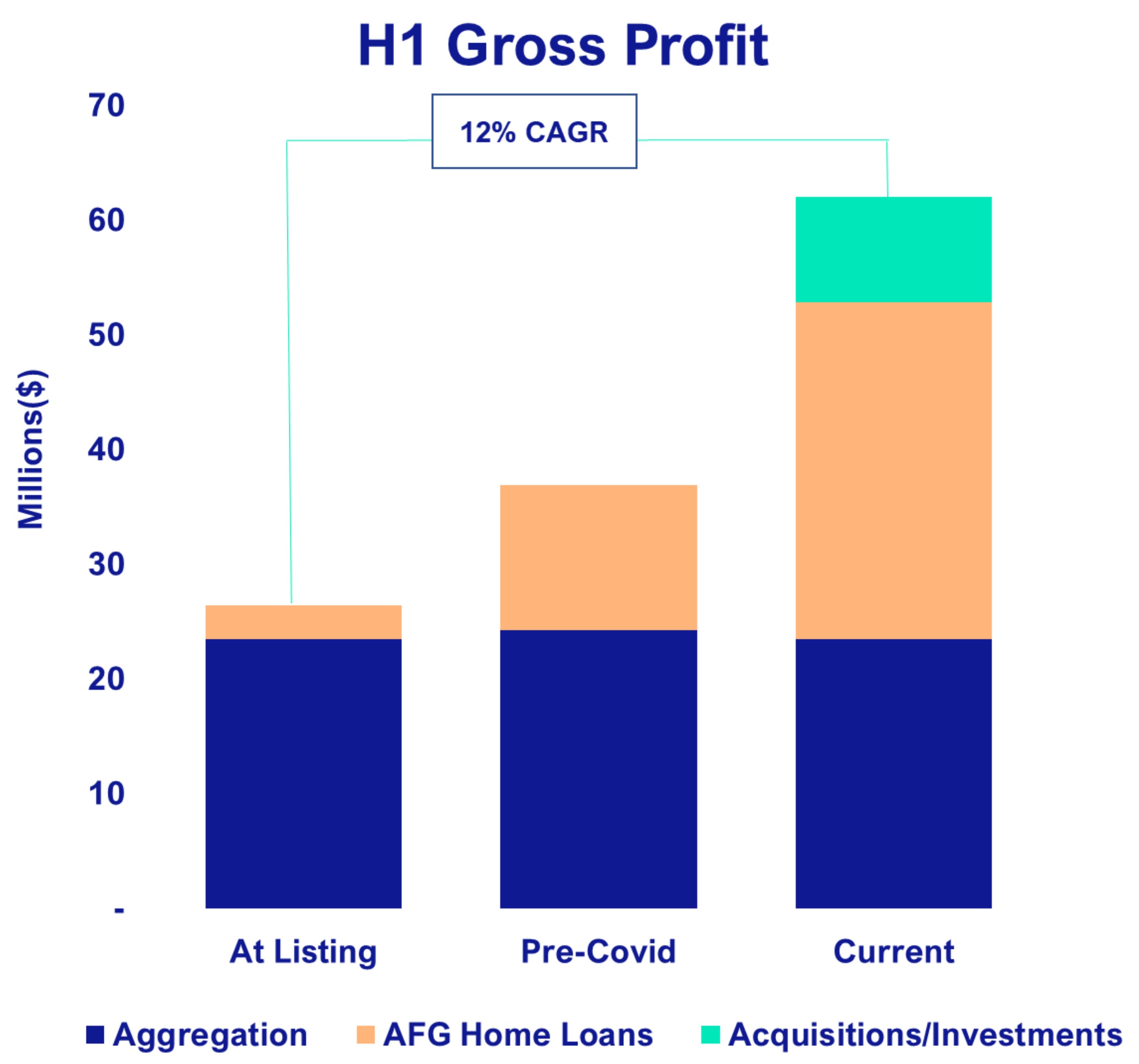
**Commercial mortgage trail book has more than doubled since listing**

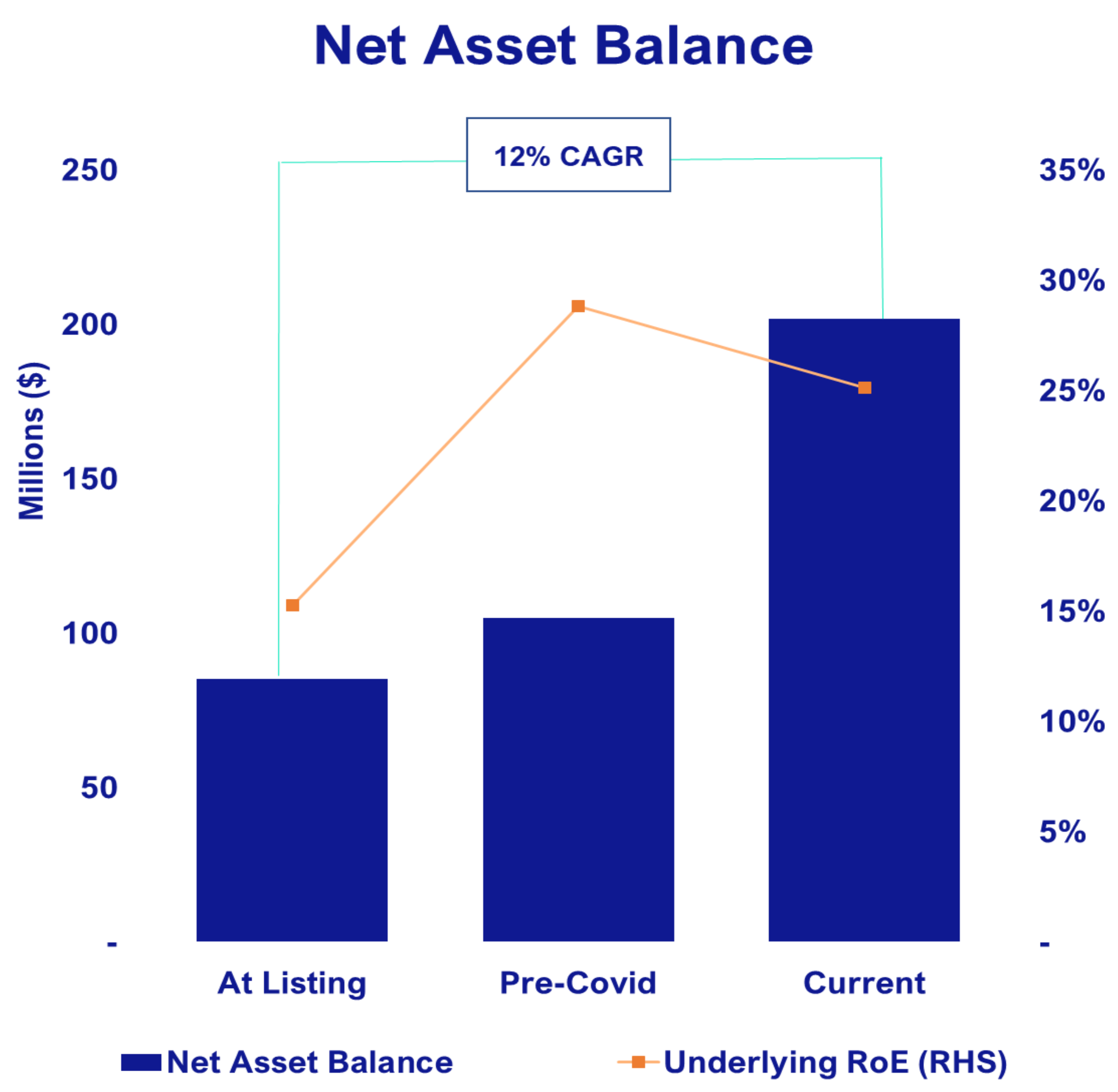
Growing product diversity & access to new markets

*'At listing' refers to FY15 (ASX listing date of 22 May 2015). 'Pre-Covid' refers to FY19. 'Current' refers to H1 FY23*

# Our diversification strategy is proven & provides a growth platform




**Higher margin AFG Securities loan book now almost $5b**

Net Interest Margin (NIM) growth to 145bps

**Over 60% gross profit is delivered through annuity style income streams**

AFG Securities & White Label now represent almost half of gross profit

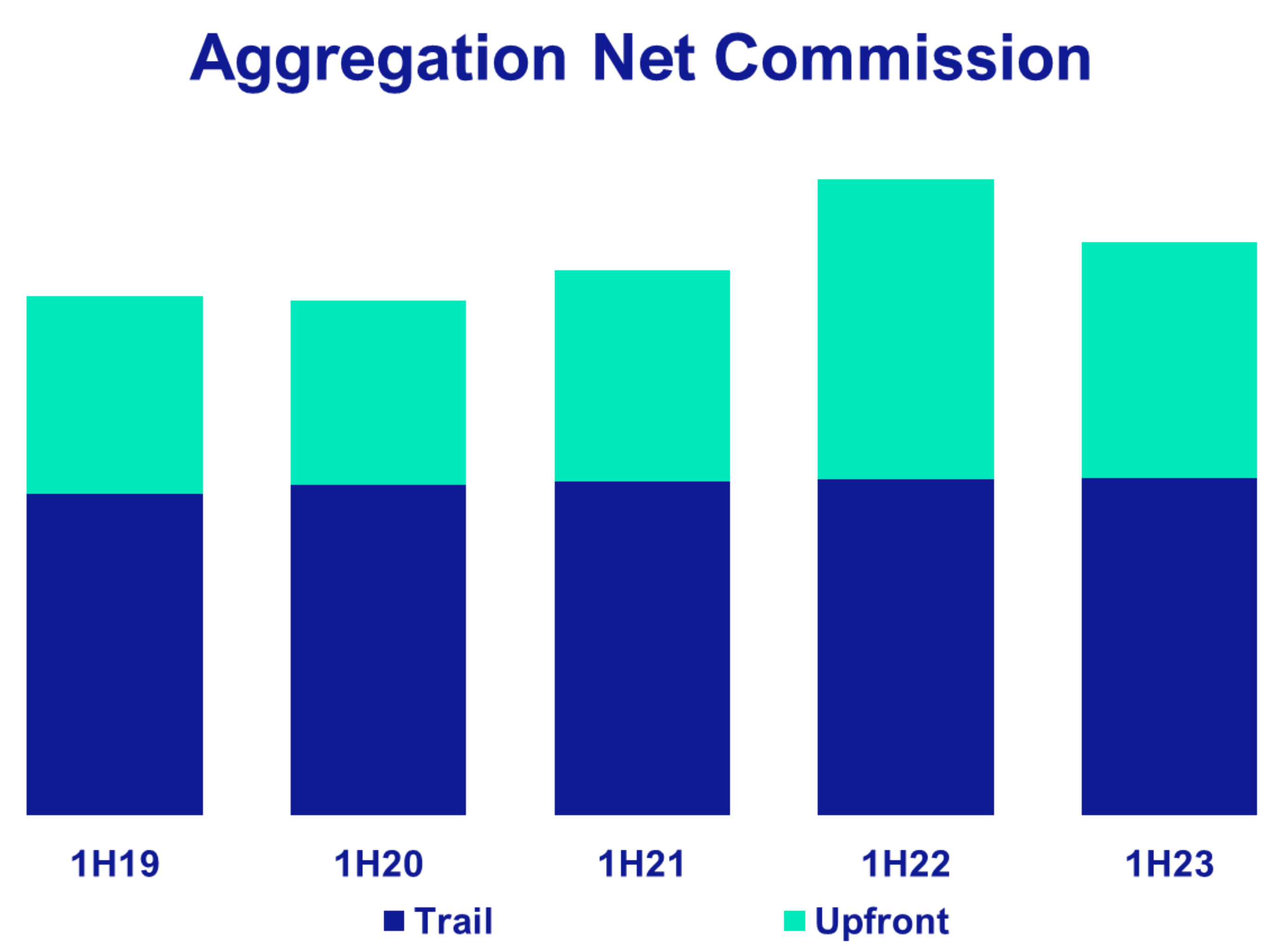
14% of gross profit delivered through Strategic Investments

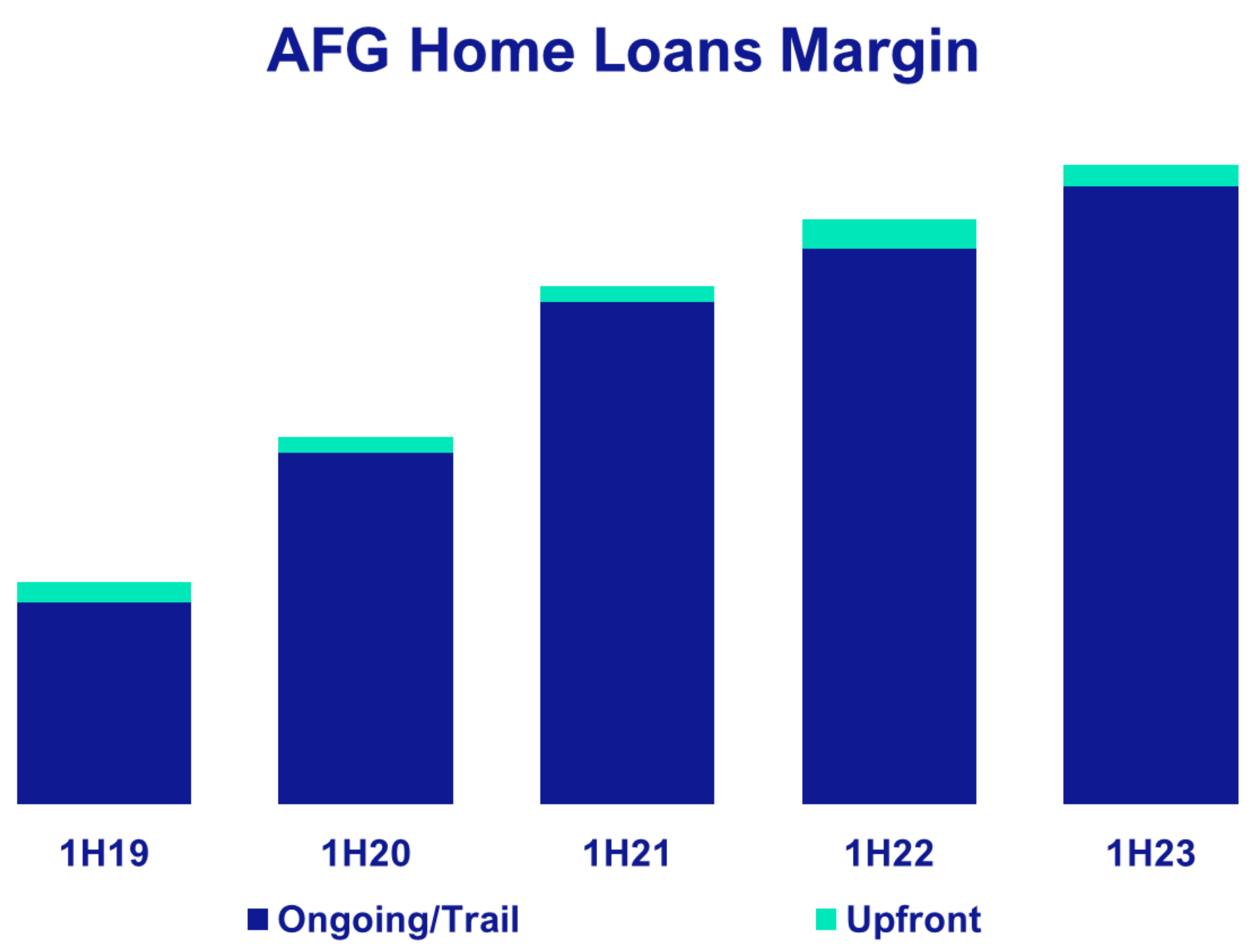
**Delivering strong RoE**

Net asset growth driven by strategic investments in high performing assets & trail book delivering annuity cashflows

*'At listing' refers to FY15 (ASX listing date of 22 May 2015). 'Pre-Covid' refers to FY19. 'Current' refers to H1 FY23*

# Business segments are well placed to continue to deliver shareholder returns




Aggregation services include upfront & trail commission, & broker fees across a diverse product range including Residential, Commercial, Leasing & Asset finance

Net commissions are supported by growing trail book, while upfront commission is linked to settlement volumes. Trail composes approximately 60% of this

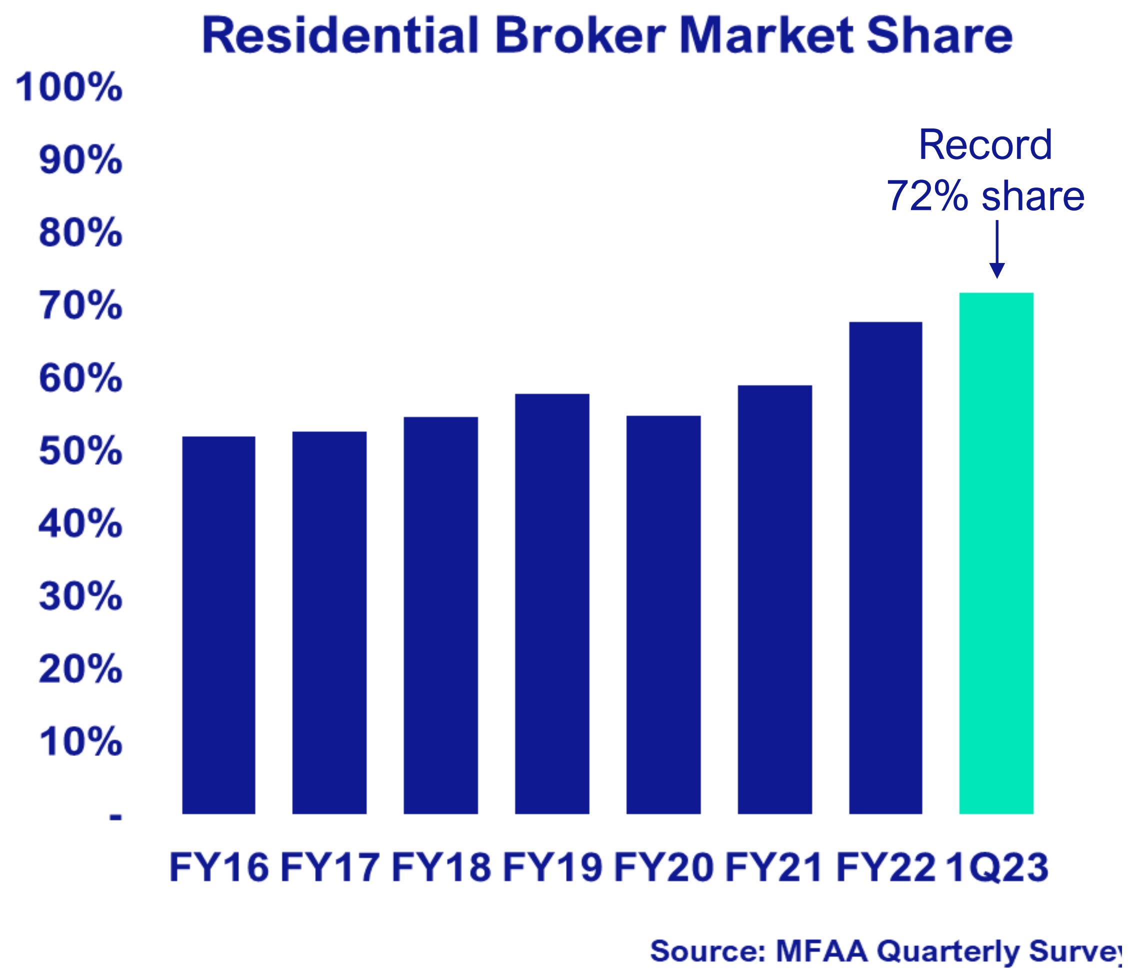
Majority of the earnings in AFG Home Loans (AFGHL) is from the ongoing loan book. This includes AFG Securities net interest income and White Label trail commission

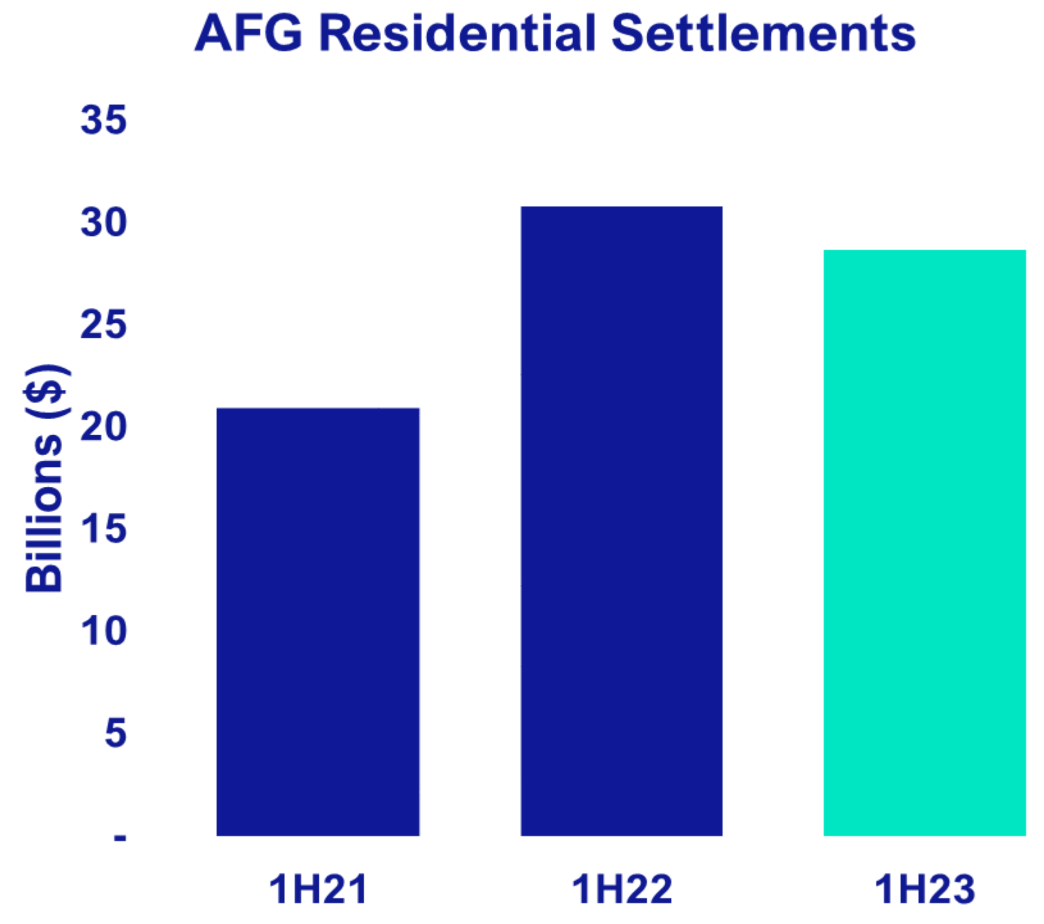
AFG

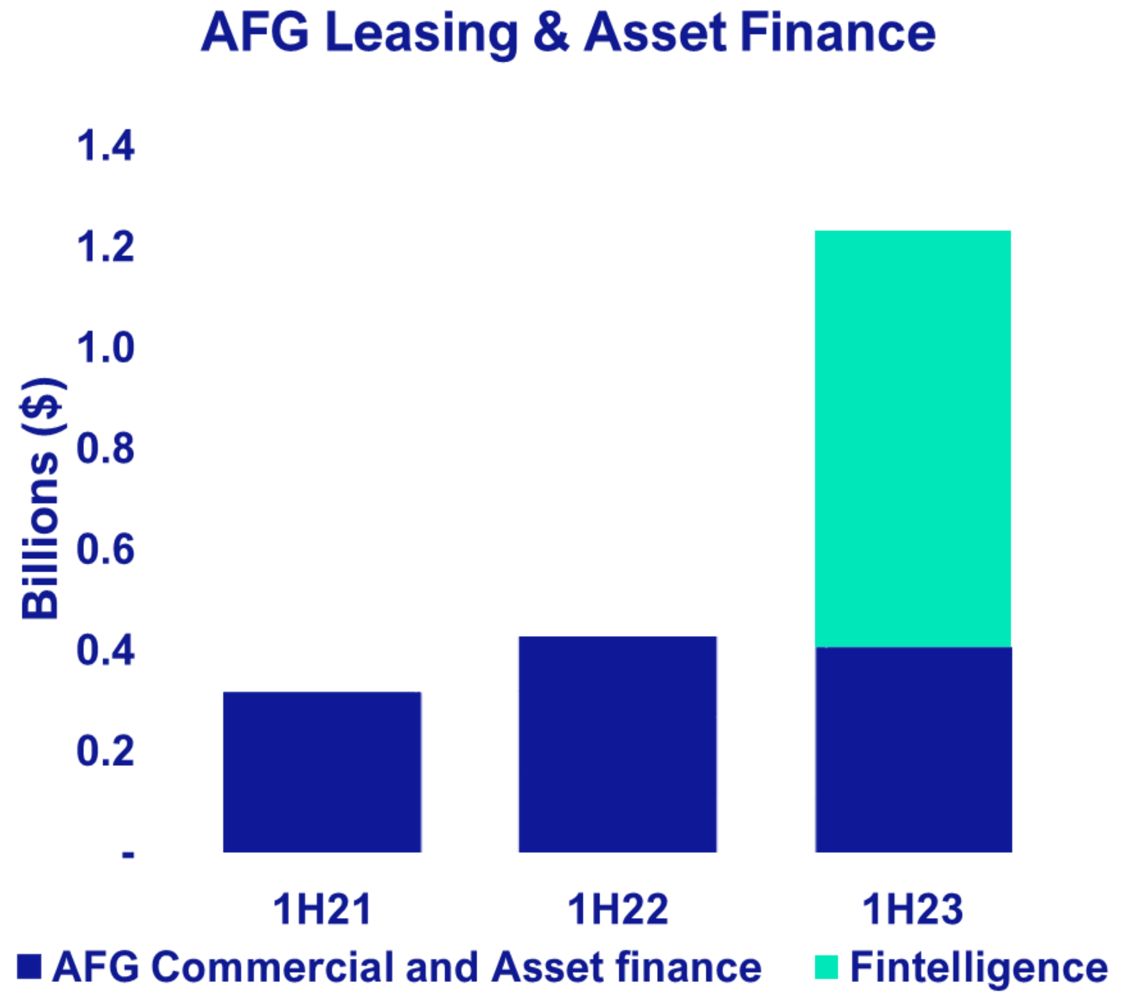
# Aggregation

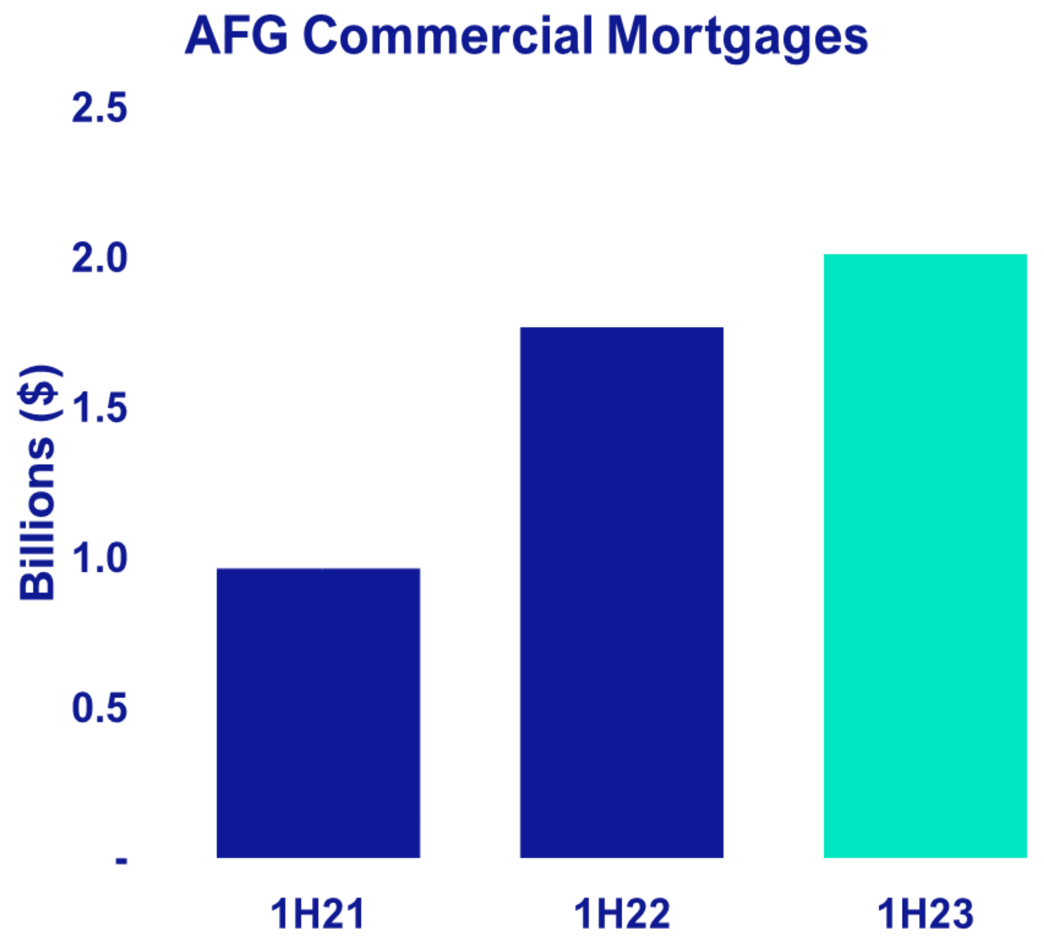
## Brokers remain the dominant residential channel, with commercial a significant growth opportunity

- Brokers recognised by lenders as the pre-eminent channel for Australian mortgages, with 72% market share
- Brokers are critical to providing competition & choice, & are even more important with household budgets under pressure
- As $30b[1] of remaining fixed rate mortgages mature & with the recent rapid cash rate movements, the demand for broker services will increase
- Brokers (Aggregation) underpin the AFG business model, with AFG brokers writing 1 in 10 residential mortgages in Australia
- AFG broker proposition is strong & further strengthened by the technology investment
- A similar opportunity exists for brokers to provide competition & choice in the $1.1tn[2] commercial market of which all brokers only have ~20% share
- AFG's strategic investments provide a growth platform for commercial, while its balance sheet provides capacity for further investment



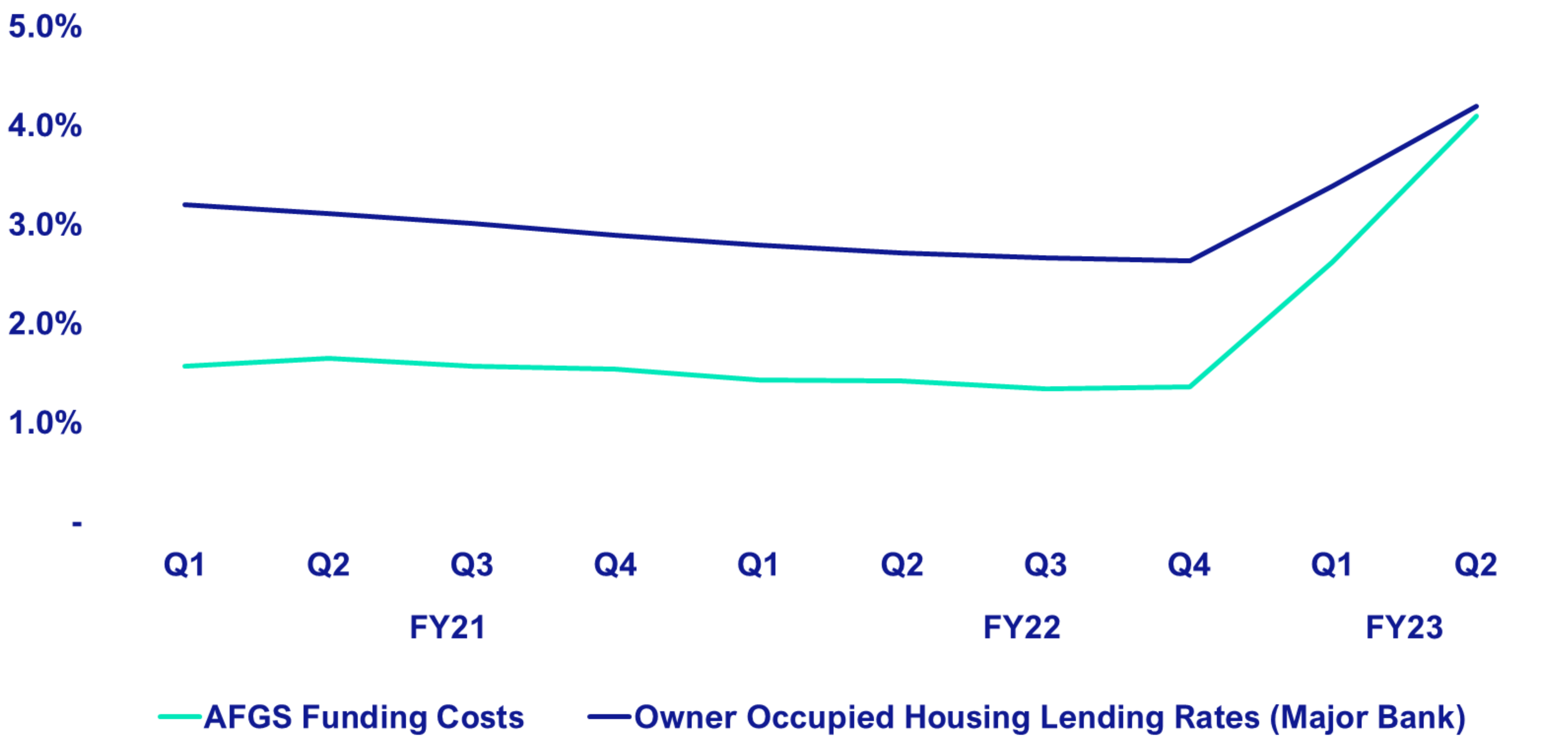

*1. Residential settlements written by AFG brokers*
*2. Source: RBA*

# AFG Home Loans

## Strong book growth; ranked 6th for lodgements, the best performing non-bank[1]

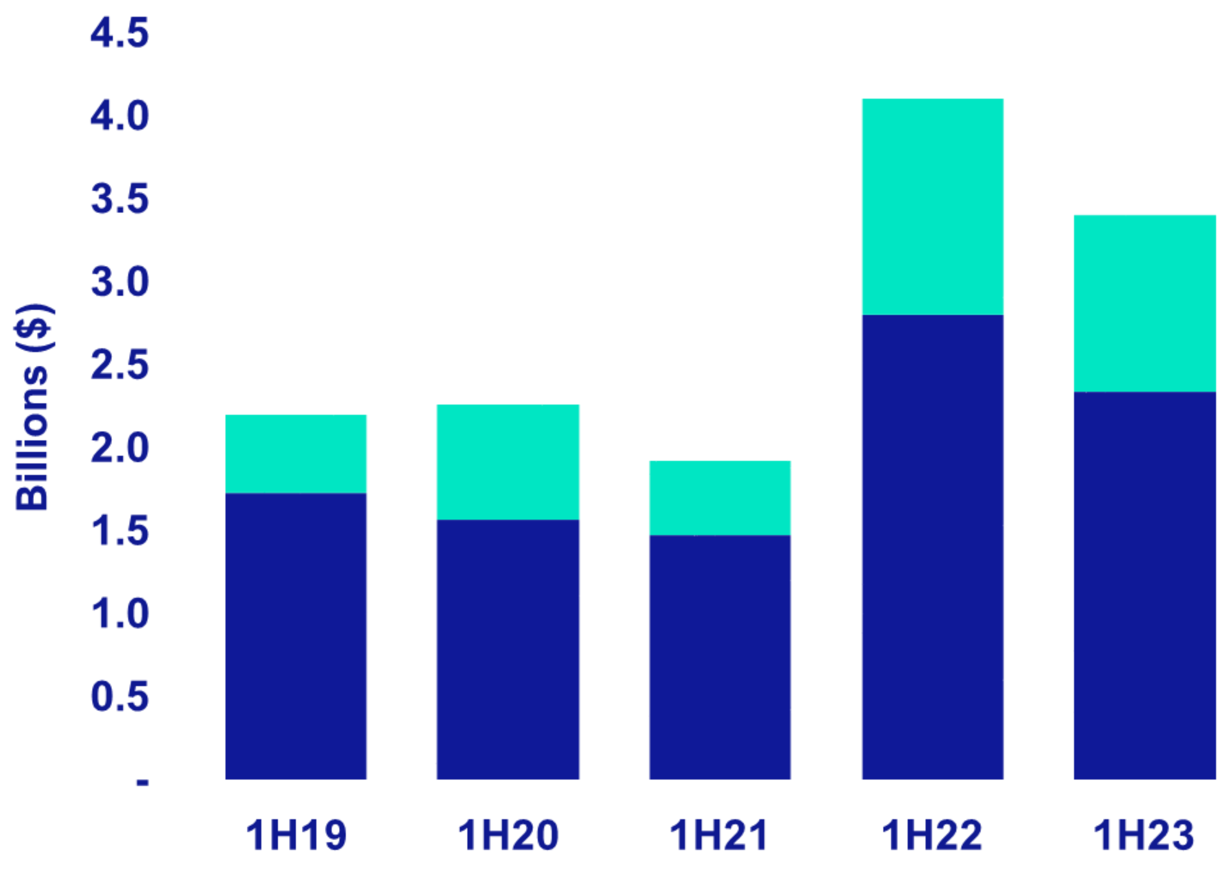
- AFG Home Loans includes AFG funded Retro & Link brands (AFG Securities) as well as White Label products
- The ADI’s funding advantage has temporarily reduced available margin, this structural disadvantage has affected the ability of non-banks to compete in prime home loans
- AFG Securities has elected not to write margin dilutive product, but rather leverage its extensive data set & focus on higher-margin underserved customers
- This discipline generated a NIM of 145bps for the half, but lowered settlement volumes against last year’s record, although volumes are 80% above pre-COVID levels
- AFG Home Loans remains the largest & only non-bank in the top 10 for residential mortgages lodged, reflecting the strength of the AFG broker network
- Investment in a new lending platform is nearing completion which will deliver efficiencies for AFG Securities as we grow
- As the structural funding disadvantage progressively rolls off over the next 6 to 18 months, AFG Home Loans is positioned well to capture growth

**AFGS Funding Costs vs Major Bank Housing Lending Rates**

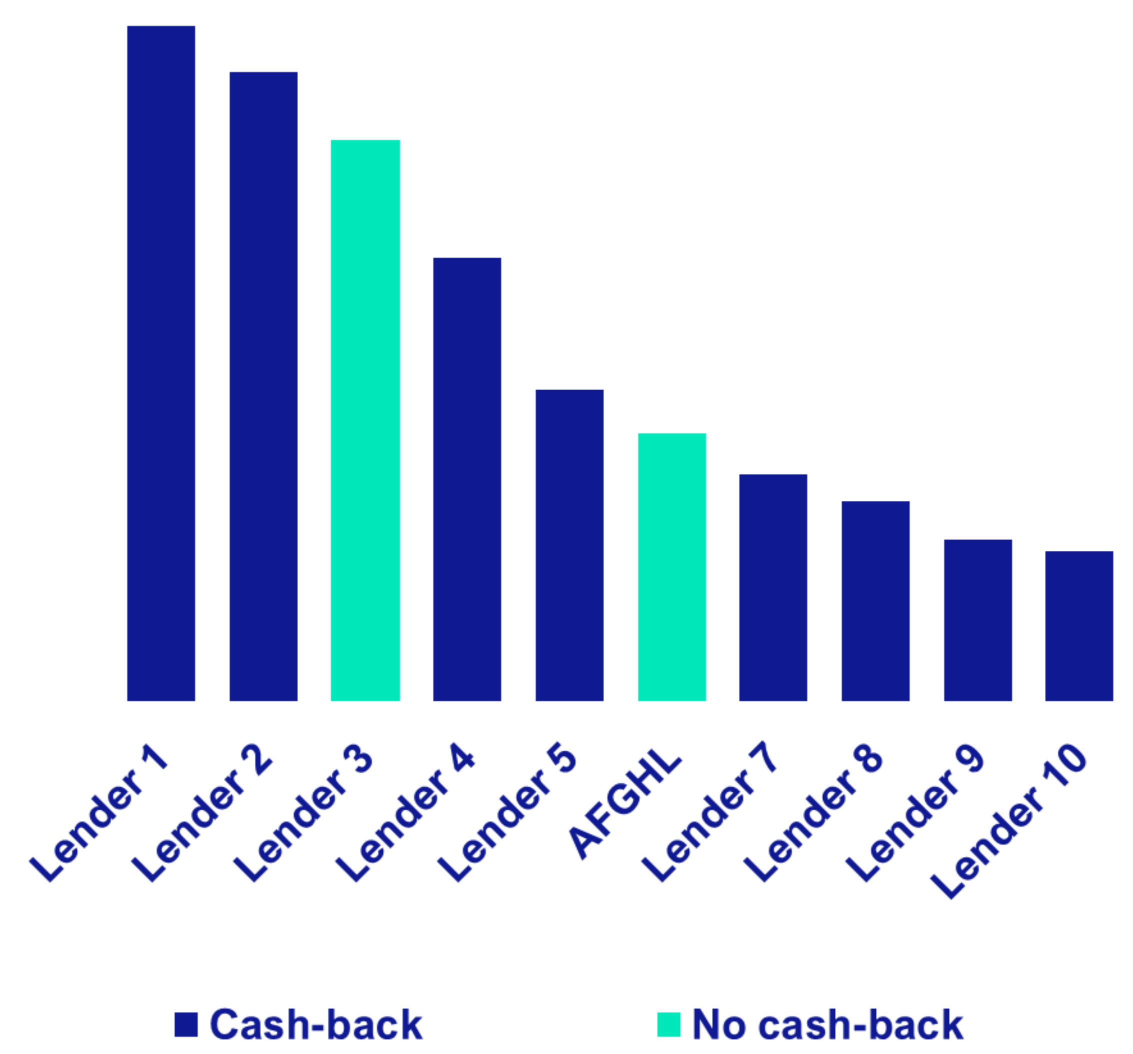



Source: RBA

**AFGHL Settlements**




**Lodgement Market Share[1]**

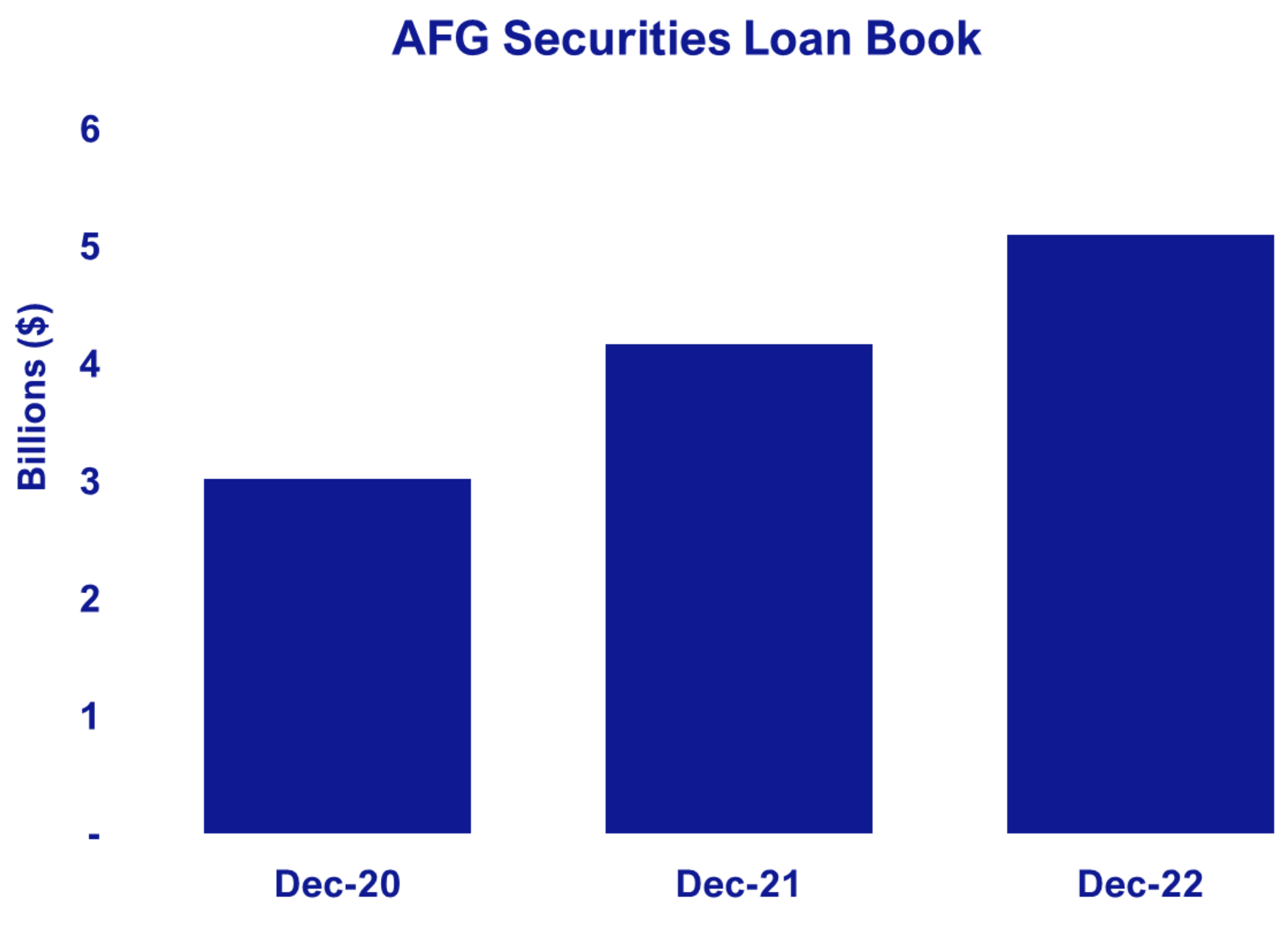


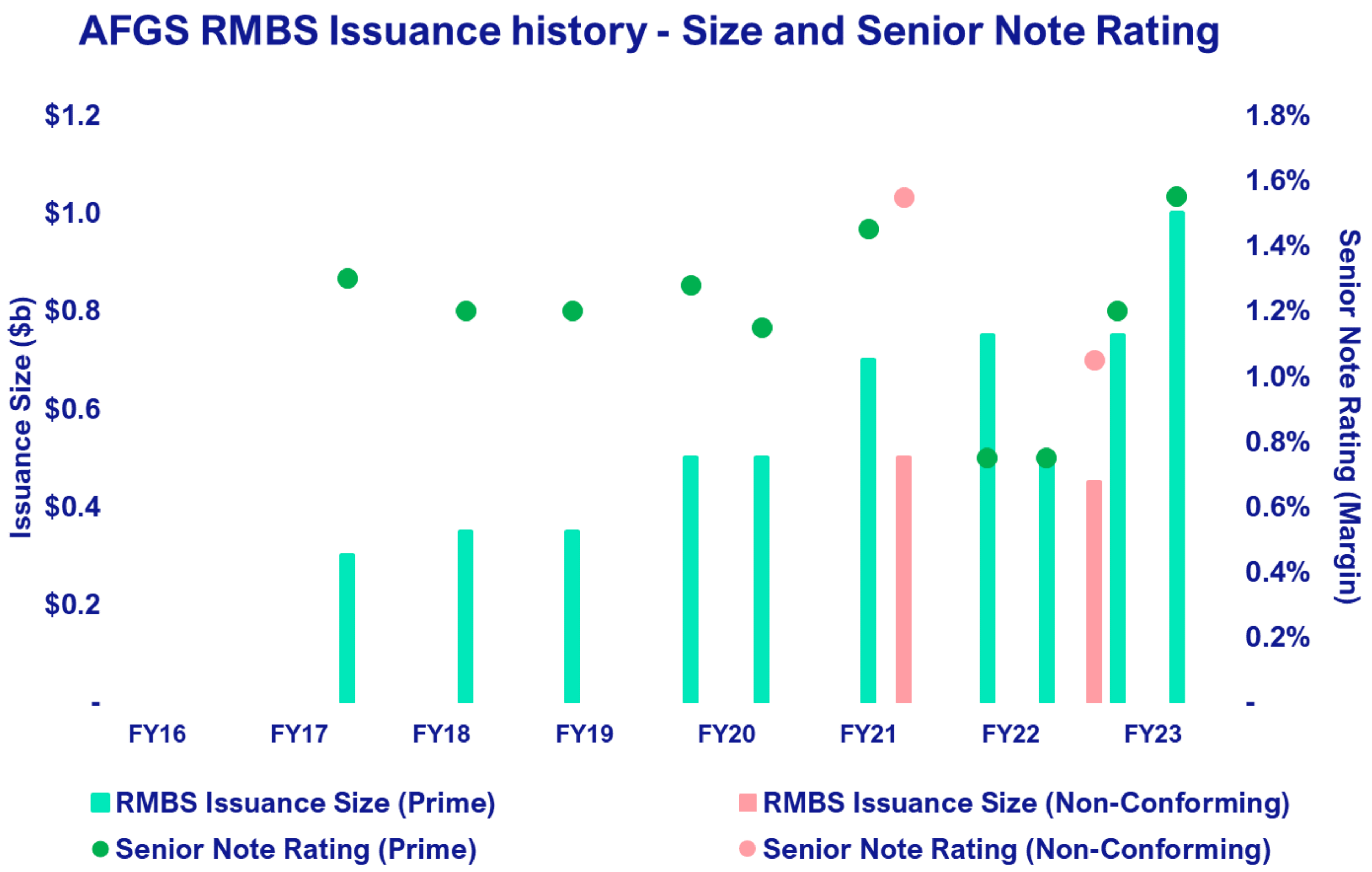

1. Market share of AFG Residential lodgement volumes. Source: AFG Index Q2 FY23

# Funding

## History of issuances with sufficient capacity for AFG growth

- Strong history of issuing RMBS transactions, with $3.4b issued in the past 24 months of the total $7.5b issued since 2013
- AFG Securities loan book has grown 22% to $4.9b since December 2021
- September 2022, AFG issued a record $1b RMBS demonstrating the strength of the program & support from both domestic & international investors
- Warehouse capacity provides opportunity to develop new products & participate in the $30b fixed to variable refinance activity that will occur over the next 18 months



HALF YEAR RESULTS

# Financial update

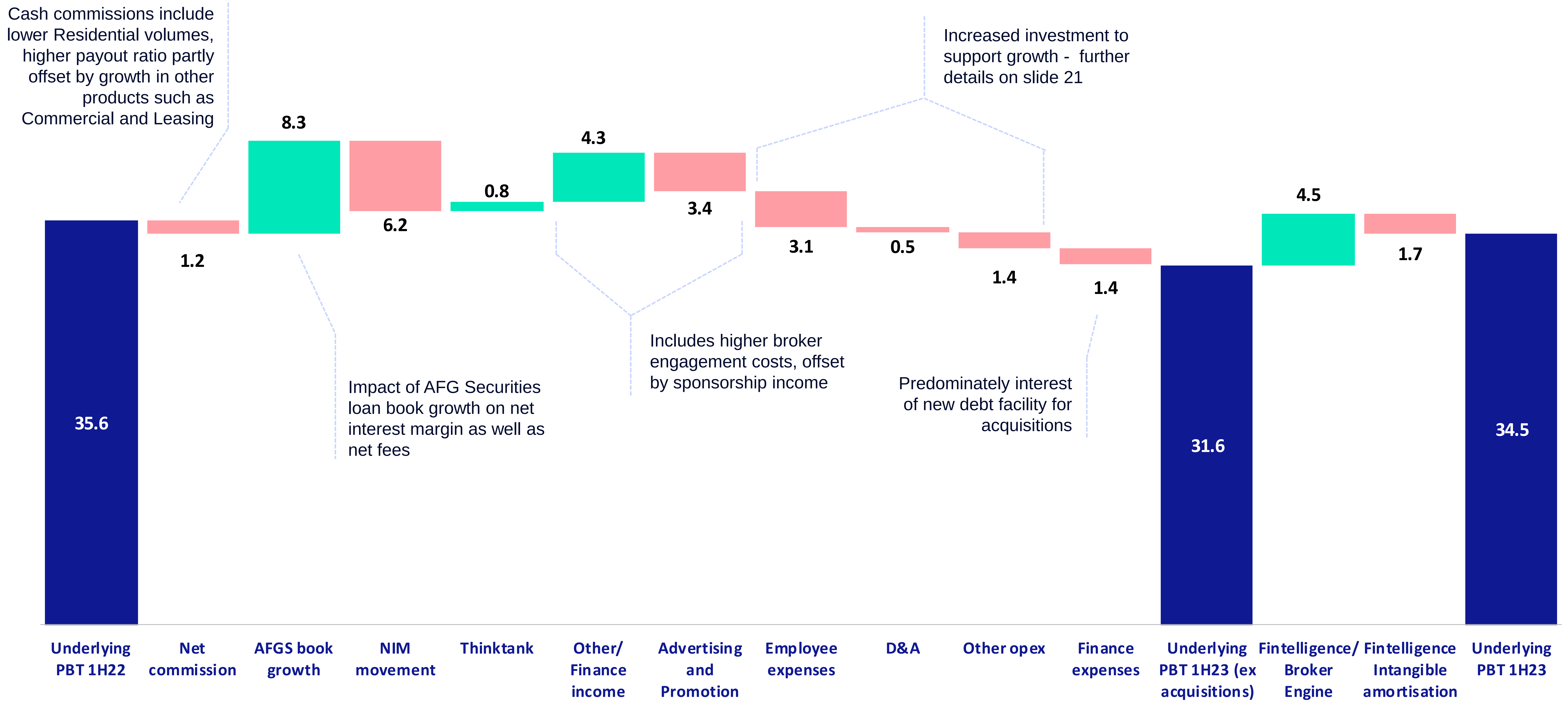
# Financial Results

- AFG Securities Loan Book up 22%, underpinning revenue growth of 12%
- Gross profit benefiting from first period of Fintelligence & BrokerEngine partially offset by Net Interest Margin
- NIM at 145bps, returning to more normalised levels
- Deliberate increase in operating expenses to support:
    - growth in AFG Securities & Strategic Investments
    - improvements in technology
- Underlying NPATA[1] broadly in line with prior year including contribution from Strategic Investments
- Record first half cashflow from operating activities of $27m
- Underlying cost to income ratio at 61%, affected in 1H23 by the rapid reduction in NIM. Employee costs represent over 50% of the operating cost base, with higher FTE to support high levels of activity & inclusion of Fintelligence & BrokerEngine
- Fully franked interim dividend declared at 70% of Underlying NPATA

| | | 1H23 | 1H22 | 1H23 v 1H22 |
|---|---|---|---|---|
| Total Revenue | $m | 525.2 | 469.7 | 12% |
| Gross Profit | $m | 62.0 | 61.3 | 1% |
| Reported NPAT [1] | $m | 21.9 | 30.0 | (27%) |
| Underlying NPATA | $m | 25.6 | 26.0 | (1%) |
| Net cash from operating activities | $m | 26.9 | 14.9 | 80% |
| **Financial Metrics** | | | | |
| Underlying EPS | cps | 9.5 | 9.6 | (2%) |
| Dividends Paid | $m | 17.8 | 18.8 | (5%) |
| Underlying ROE | % | 25.1 | 24.9 | 1% |
| AFG Securities Closing Loan Book | $b | 4.9 | 4.0 | 22% |
| Net Interest Margin | bps | 145 | 172 | (16%) |
| Average FTE [2] | # | 334 | 245 | 37% |
| Underlying Cost to Income [3] | % | 61 | 48 | (25%) |

*1. Reconciliation between Reported NPAT & Underlying NPATA detailed on slide 33*
*2. Average for reporting period*
*3. Total Operating Expenditure / (Gross Profit (adjusted for Trail) + Other Income)*

# Underlying profit before tax – Earnings bridge




*1H22 Underlying profit before tax excludes $5.8m of trail commission adjustment*
*1H23 Underlying profit before tax excludes ($2.4m) of trail commission adjustment and ($0.8m) of Net change in Fair value of put/call liability relating to Fintelligence*

# Strategic investment performance

| | Thinktank | fintelligence | BrokerEngine |
|---|---|---|---|
| **Acquisition Date** | April 2018 | December 2021 | January 2022 |
| **1H23 earnings contribution** | $3.5m | $2.8m | $(0.4)m[1] |
| **Carrying value** | $31.8m | $54.6m | $4.6m |
| **Current AFG Ownership** | 32% | 75% | 70% |
| **Key metrics** | Loan Book<br>**$4.9b**<br>Up from $0.75b at acquisition | Broker numbers<br>**540**<br>Up from 285+ at acquisition | Subscribers<br>**2,000+**<br>Up from 1,100+ at acquisition |
| **Primary income type** | Commercial / Residential<br>Net interest on securitisation | Asset Finance<br>Commission payments | Broker Services<br>Subscription income |
| **Reporting segment** | Other | Aggregation | Aggregation |

*1. Includes accounting adjustment for revenue recognition in H1 FY23*

# Higher operating costs associated with growth, efficiencies expected from FY24

**$4m**

### Strategic Investments

Inclusion of operating expenses associated with Fintelligence & Broker Engine for the first time. Primarily relates to Employee Costs.

**$4m**

### Technology Investment

Ongoing investment to improve broker & customer proposition as well as uplift in data capabilities & cyber security. Primarily higher Employee Costs & Software Amortisation.

**$3m**

### Securitisation growth

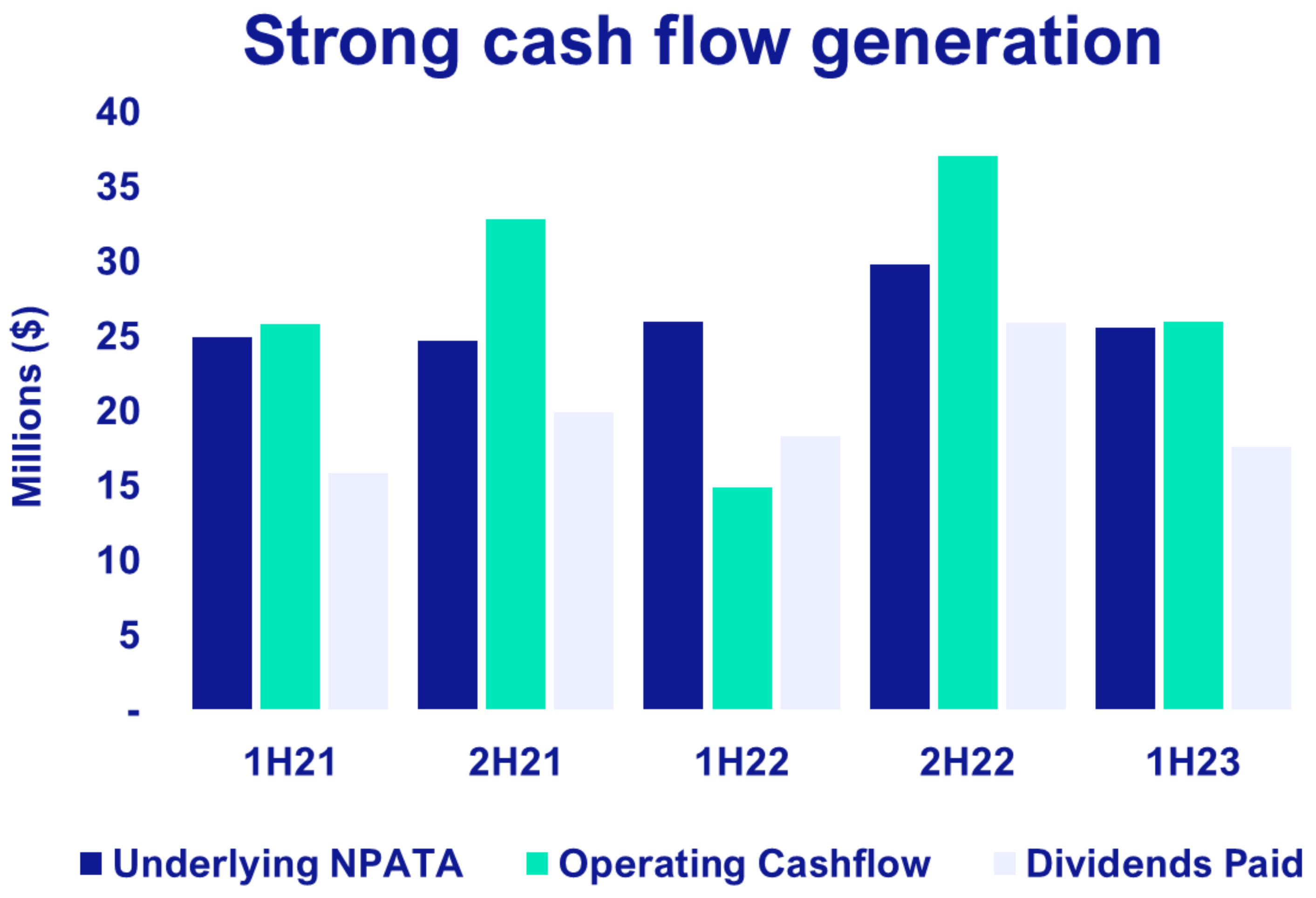
Employee Costs associated with additional activity, costs for establishing the new lending platform as well as higher term out costs given transaction size. Lending platform will reduce operating costs in FY24.

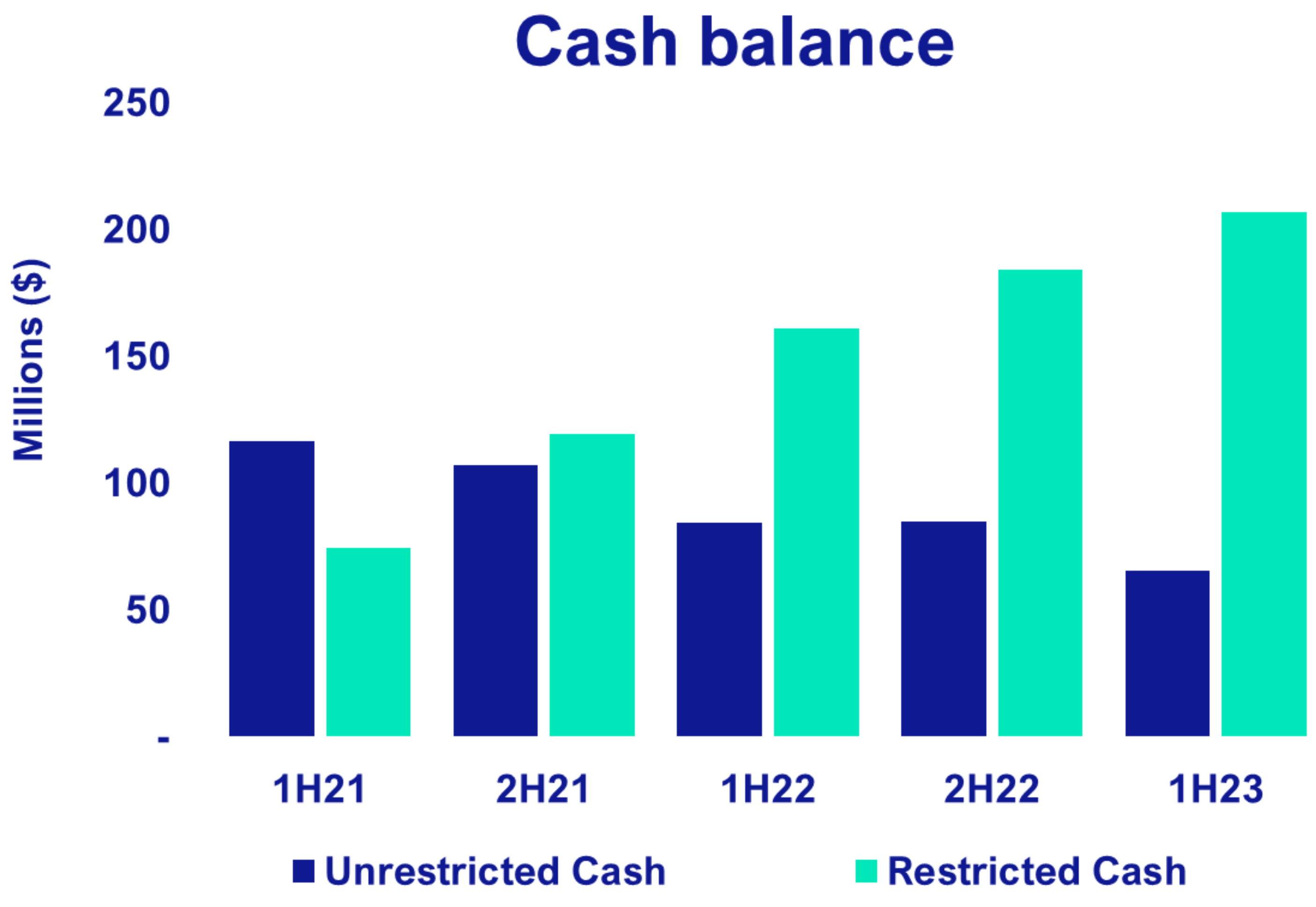
**$3m**

### Broker engagement

Additional services & events provided to AFG brokers as COVID restrictions lifted.

# Annuity style earnings provides strong cash generation, balance sheet well positioned for growth




**Strong leverage at 31 December 2022 23%**

**Strong cash generation with 105% cash conversion for H1 FY23**

Historical average full-year dividend payout ratio 80%

**Adequate capital to fund future investment**

$200m of net unrestricted cash & other financial assets[1]

$207m of restricted cash relating to AFG Securities Trusts

**Capital light business model with capacity to fund growth**

*1. See breakdown on slide 34*

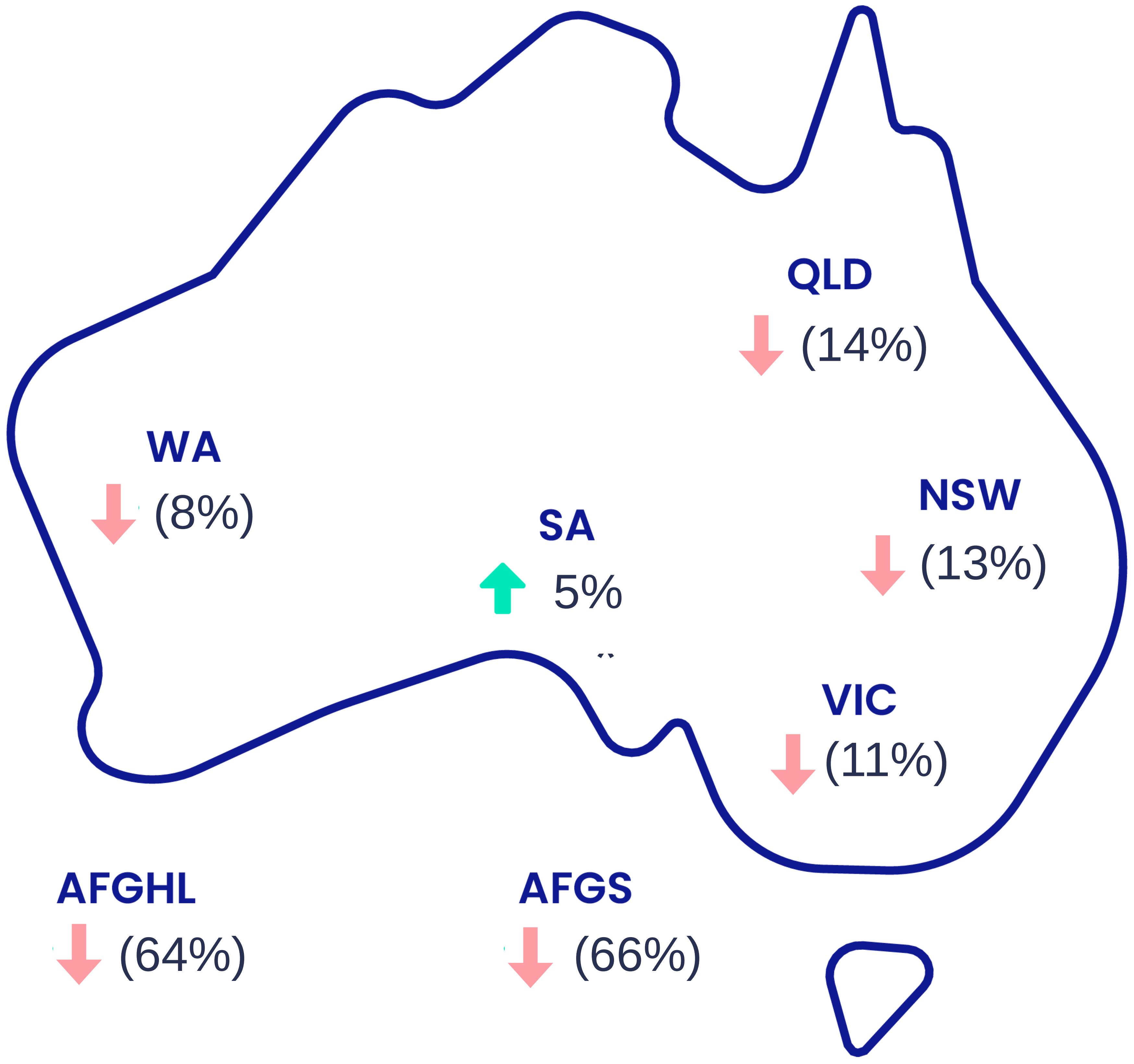
HALF YEAR RESULTS

# Outlook

# January 2023 Trading

- Residential lodgements are below January 2022, at $4.3 billion.
- AFG Home Loans lodgements down 64% compared to January 2022.
- AFG Securities lodgements 66% lower than January 2022. Settlements were 60% lower.
- Residential lodgements volumes remain well above pre-COVID levels, up 15% compared to January 2020

Comparison of January Lodgements

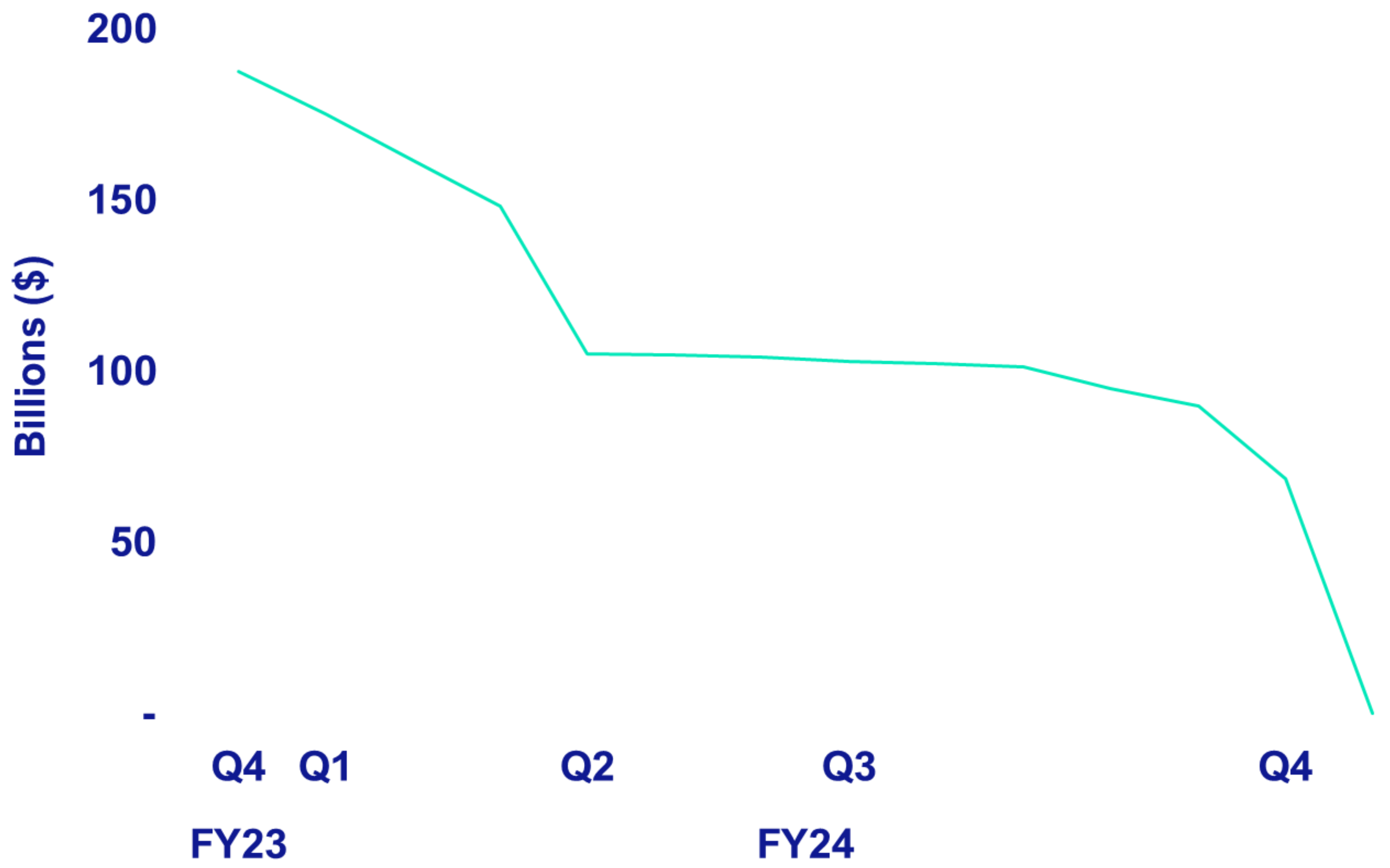



January 2023 change on January 2022

AFG

# Market headwinds expected to slow

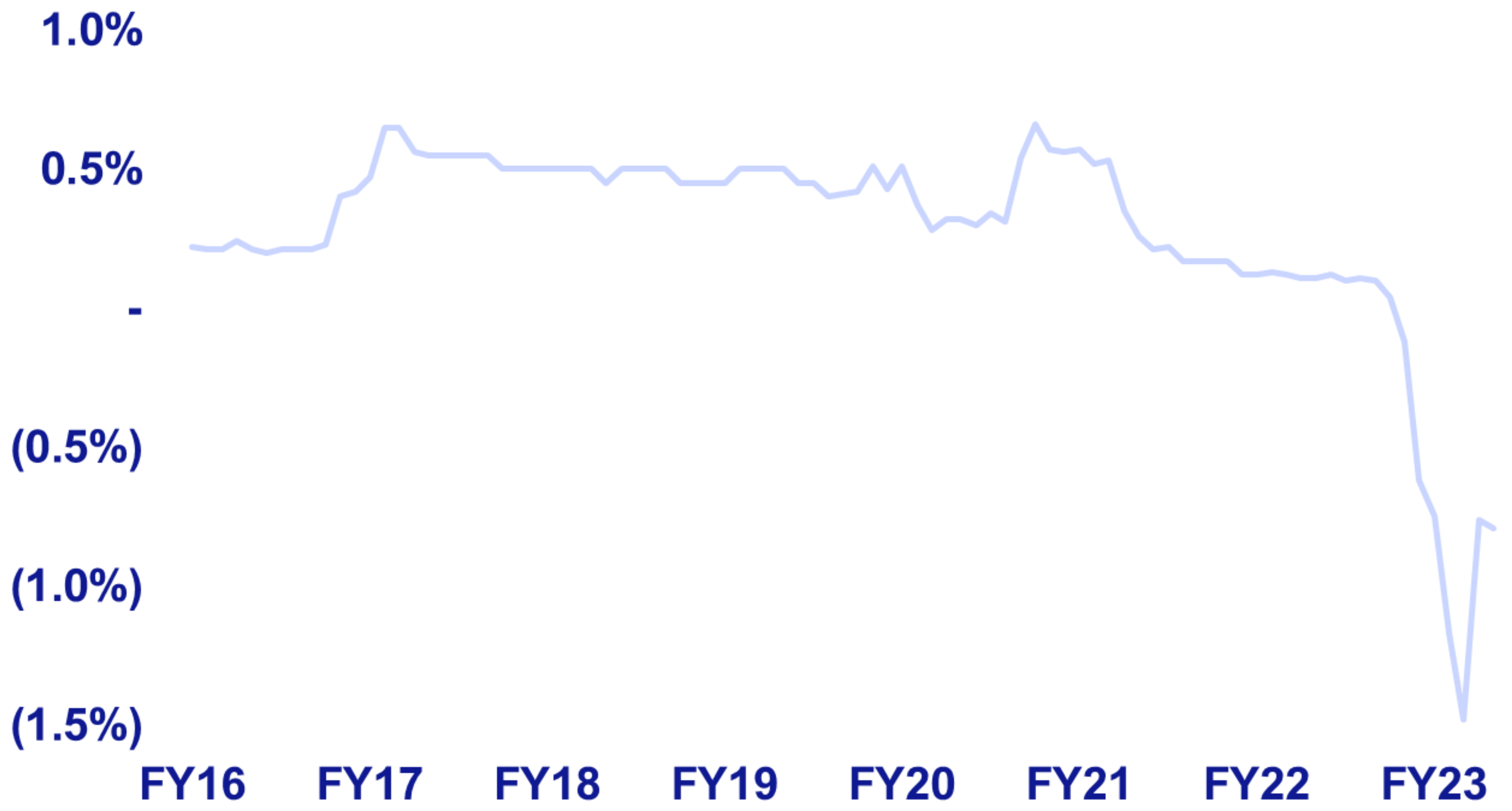
### Outstanding Funds from TFF [1]




Source: RBA

**TFF funding will be repaid with $85b maturing in 2023**

### Banks' Deposit Margin (v BBSW)




Source: RBA

**With the TFF repayment, bank deposit margins are likely to return to long term average**

This will negate the structural disadvantage for non-bank lenders funding costs

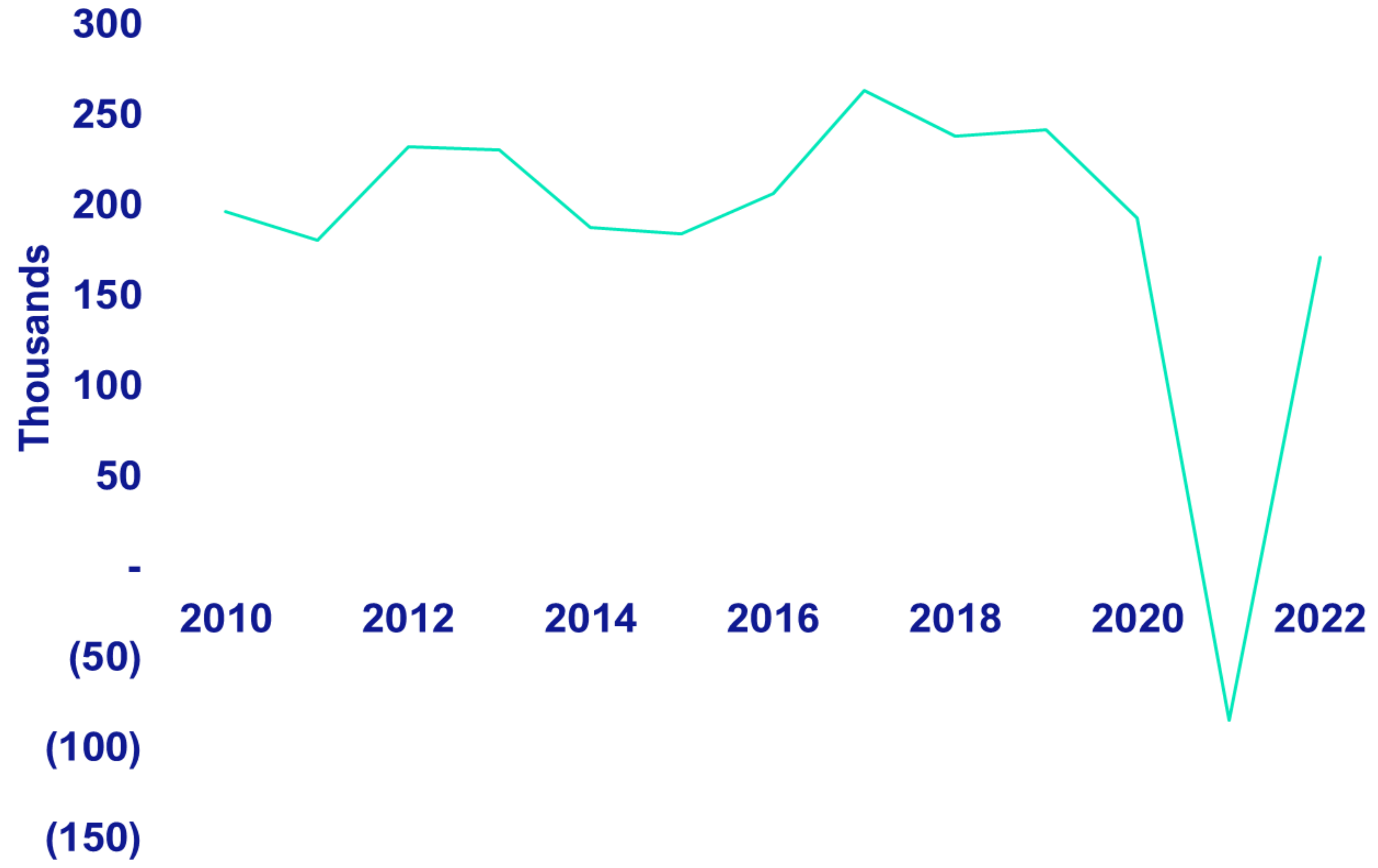
*1. Assuming funding to be repaid over 3 years*

# Market headwinds expected to slow

## Residential Fixed Rate Volumes to Mature


Source: RBA

## Net Overseas Migration




Source: RBA

**Approximately $30b of fixed rate loans from the AFG Residential book to reach maturity**

AFG Securities does not have a fixed rate product, so providing an AFG Securities product for transitioning customers represents an opportunity

**Net migration has returned & has been forecast to increase above historical averages**

Supported by strong levels of employment this will drive additional demand in the housing market

# Our strategy to build scale & expand into higher margin lending services is proven

| Earnings diversification | Strong balance sheet & cash generation | Invested for growth |
|---|---|---|
| **$200b**<br>Residential + Commercial Trail book | **$260k**<br>Industry leading credit quality, incurring only $260k of loan losses | **1,300+**<br>Growth in our broker network since listing |
| **$5b**<br>Diversified into higher margin products, with AFG Securities book of nearly $5b | **$200m**<br>Returned over $200m to shareholders in dividends since listing | Strategic investments[1] outperforming & providing a platform for growth |

*1. Includes Thinktank, Fintelligence and BrokerEngine*

# Our strategy to build scale & expand into higher margin lending services provides a growth platform

| Earnings diversification | Strong balance sheet & cash generation | Investing for growth |
| --- | --- | --- |
| Innovation using our data to identify underserved customers & provide new broker services | Leveraging our annuity style cashflows & strong balance sheet | Technology investment to improve broker proposition & deliver efficiencies as broker share continues to rise |
| Supporting AFG brokers to take share as fixed to variable refinancing transition occurs | Maintaining a disciplined approach to margin management & credit quality | Growing Commercial & Asset Finance market share through strategic investments & our extensive broker network |

HALF YEAR RESULTS

# Appendices

# Settlements & Loan Book

| Settlements ($m) | 1H23 | 2H22 | 1H22 | 1H23 v 2H22 | 1H23 v 1H22 |
|---|---|---|---|---|---|
| Residential | 28,598 | 28,619 | 30,774 | (0%) | (7%) |
| AFGHL | 2,332 | 2,787 | 2,799 | (16%) | (17%) |
| White Label[2] | 1,267 | 1,370 | 1,496 | (8%) | (15%) |
| AFG Securities[2] | 1,065 | 1,418 | 1,302 | (25%) | (18%) |
| Commercial | 2,017 | 2,116 | 1,771 | (5%) | 14% |
| AFG Business | 101 | 105 | 146 | (4%) | (31%) |
| Thinktank | 104 | 112 | 127 | (7%) | (18%) |
| Leasing and Asset finance[1] | 1,232 | 1,083 | 421 | 14% | 193% |
| **Loan Book ($m)** | | | | | |
| Residential | 188,692 | 182,161 | 173,786 | 4% | 9% |
| AFGHL | 13,866 | 13,286 | 12,176 | 4% | 14% |
| White Label[2] | 8,940 | 8,500 | 8,148 | 5% | 10% |
| AFG Securities[2] | 4,925 | 4,786 | 4,028 | 3% | 22% |
| Commercial | 11,129 | 10,873 | 9,953 | 2% | 12% |
| Residential + Commercial | 199,821 | 193,034 | 183,739 | 4% | 9% |

*1. Includes Fintelligence settlements from acquisition at January 2022*
*2. Is a subset of AFG Home Loans (AFGHL)*

# Key metrics

## Key movements

- Aggregation operating income (2)% year on year, driven primarily by lower Residential Settlements, increasing payout ratio & run-off rates all of which affect commissions
- AFGHL operating income +82% year on year reflects growth in the book & higher interest rate
- Employee costs +33% year on year as a result of the introduction of Fintelligence & BrokerEngine as well as higher FTE primarily to support growth in Securitisation & IT activity
- Underlying cost to income ratio higher, affected by the quick reduction in the NIM & service levels being maintained

| | | 1H23 | 2H22 | 1H22 | 1H23 v 2H22 | 1H23 v 1H22 |
|---|---|---|---|---|---|---|
| **Operating Income[1]** | | | | | | |
| Aggregation | $m | 383.1 | 373.3 | 391.2 | 3% | (2%) |
| AFGHL | $m | 141.2 | 85.1 | 77.7 | 66% | 82% |
| Other | $m | 0.9 | 0.9 | 0.8 | 7% | 10% |
| Total | $m | 525.2 | 459.2 | 469.7 | 14% | 12% |
| **Profitability** | | | | | | |
| Trail Book Net Asset | $m | 103.5 | 105.9 | 103.8 | (2%) | (0%) |
| Upfront Payout Ratio | % | 95.0 | 94.6 | 94.3 | 0.5% | 0.8% |
| NIM | bps | 145 | 163 | 172 | (11%) | (16%) |
| **Operating Costs** | | | | | | |
| Employee Costs | $m | 24.7 | 22.3 | 18.6 | 11% | 33% |
| IT | $m | 4.0 | 3.5 | 3.3 | 14% | 20% |
| Total Operating Costs | $m | 45.9 | 40.3 | 31.3 | 14% | 47% |
| Average FTE [2] | # | 334 | 318 | 245 | 5% | 37% |
| Underlying Cost to Income Ratio [3] | % | 61 | 50 | 48 | 21% | 25% |
| **Credit Quality** | | | | | | |
| Total Losses | $m | - | 0.03 | - | | |
| **Other** | | | | | | |
| Contribution from Strategic Investments | $m | 5.9 | 5.8 | 2.6 | 1% | 127% |
| Brokers | # | 3,717 | 3,711 | 3,050 | - | 21% |
| Underlying ROE | % | 25.1 | 28.4 | 24.9 | (11%) | 1% |
| Dividend Yield [4] | % | 8.3 | 10.4 | 5.8 | (21%) | 41% |

*1. 1H22 adjusted to reflect year end FY22 segment classifications*
*2. Average for reporting period*
*3. Total Operating Expenditure / (Gross Profit (adjusted for Trail) + Other Income)*
*4. Based on share price as at 15 February 2023, 2 August 2022 & 11 February 2022*

# Summary P&L

## Key movements

- Gross profit was +1% year on year, driven primarily by the inclusion of Fintelligence & BrokerEngine. A lower NIM has resulted in a lower gross profit being recorded in the AFG Home Loans segment.
- Other Expenses were $10m higher year on year, as a result of a conscious effort to reinvest in the business & brokers, and not be distracted by predictable but temporary policy impacts.
- The increase in Other Expenses was driven primarily by employee expenses (+$6m), partly driven by the inclusion of Fintelligence & BrokerEngine as well as an increase in FTE associated with growth of AFG Securities & additional investment in IT. An increase of $3m was associated with broker activity as COVID restrictions were lifted (offset by higher other income). Additional information is provided on slide 21
- Depreciation & amortisation increased primarily associated with the acquisition of Fintelligence, as well as AFG's ongoing investment in technology
- Share of profit of an associate increased by 33% representing the strong performance of the Thinktank business of which AFG owns 32%

| $m | 1H23 | 2H22 | 1H22 | 1H23 v 2H22 | 1H23 v 1H22 |
|---|---|---|---|---|---|
| Commissions | 358.5 | 354.2 | 375.9 | 4.3 | (17.4) |
| Interest on trail commission income receivable | 41.9 | 41.5 | 40.7 | 0.3 | 1.2 |
| Mortgage management services | 0.2 | 0.3 | 0.2 | (0.1) | (0.0) |
| Securitisation transaction fees | 2.3 | 2.4 | 2.2 | (0.1) | 0.1 |
| Securitisation interest income | 119.8 | 58.2 | 50.7 | 61.6 | 69.1 |
| Subscription income | 1.5 | 1.7 | - | (0.2) | 1.5 |
| Other income | 1.0 | 1.0 | - | 0.1 | 1.0 |
| Total Revenue | 525.2 | 459.3 | 469.7 | 65.9 | 55.4 |
| Securitisation interest expense | (92.6) | (32.2) | (25.6) | (60.4) | (67.0) |
| Commission and other cost of sales | (370.6) | (358.2) | (382.9) | (12.5) | 12.2 |
| Gross Profit | 62.0 | 68.9 | 61.3 | (7.0) | 0.7 |
| Other income | 11.5 | 11.6 | 8.8 | (0.0) | 2.8 |
| Administration expenses | (5.8) | (5.1) | (3.9) | (0.6) | (1.9) |
| Other expenses | (36.7) | (32.2) | (26.3) | (4.5) | (10.4) |
| Depreciation and amortisation | (3.4) | (3.0) | (1.1) | (0.4) | (2.3) |
| Impairment expenses | - | (23.7) | - | 23.7 | - |
| Result from operating activities | 27.6 | 16.5 | 38.8 | 11.2 | (11.2) |
| Net finance income | 0.9 | (0.8) | (0.0) | 1.7 | 0.9 |
| Share of profit of an associate | 3.5 | 3.3 | 2.6 | 0.2 | 0.9 |
| Net change in fair value of financial liability | (0.8) | - | - | (0.8) | (0.8) |
| Profit before tax | 31.2 | 19.0 | 41.4 | 12.3 | (10.2) |
| Income tax expense | (8.6) | (9.3) | (11.4) | 0.7 | 2.8 |
| Net Profit after tax related to HY | 22.6 | 9.7 | 30.0 | 13.0 | (7.4) |
| Non-controlling interest | (0.8) | (0.9) | - | 0.2 | (0.8) |
| Net Profit attributable to equity holders | 21.9 | 8.7 | 30.0 | 13.1 | (8.1) |

*Securitisation interest income & commission expense is net of $8.8m & $6.4m in 1H23 & 1H22 respectively*

# Reported NPAT to Underlying NPATA reconciliation

**Key movements**

- The trail commission adjustment represents the non-cash change in the carrying value of the trailing commissions contract assets & liability. Additional information in relation to trail book accounting & key assumptions is provided on slide 35.
- The net change in fair value of the put / call liability for Fintelligence represents the increase in the value of AFG's exclusive option to acquire the remaining 25% of the business. The increase in value is driven by an improvement in the performance of the business relative to the forecasts at the time of acquisition.
- A similar put / call liability is recognised for BrokerEngine. Any change in the fair value was immaterial at reporting date.
- The value of the put / call liabilities for both Fintelligence & BrokerEngine are assessed each reporting period.

| $m | 1H23 | 1H22 | 1H23 v 1H22 |
|---|---|---|---|
| Reported NPAT | 21.9 | 30.0 | (8.1) |
| Amortisation of intangibles acquired | 1.2 | - | 1.2 |
| Trail Commission Adjustment | 1.7 | (4.1) | 5.8 |
| Net change in FV put/call liability Fintelligence | 0.8 | - | 0.8 |
| Underlying NPATA | 25.6 | 26.0 | (0.4) |

# AFG holds $200m in liquid assets & high performing investments

### Key movements

- Net unrestricted cash of $18m
- Trail book net asset was steady at $103m
- High performing, valuable investments in associates with a balance sheet value of $35m, which does not represent fair value, AFG's share of profit for the half was $3.5m
- Subordinated notes value relates to the AFG Securities loan book which grew to $4.9b (up from $4.0b at 31 December 2021)

| $m | Dec 2022 | Dec 2021 | Dec 2022 v Dec 2021 |
|---|---|---|---|
| Unrestricted cash | 65 | 84 | (19) |
| Debt facility | (47) | (53) | 6 |
| Net unrestricted cash | 18 | 32 | (13) |
| Trail book | 103 | 104 | (0) |
| Investments (Thinktank and MAB) | 35 | 28 | 7 |
| Other asset (Volt) | - | 15 | (15) |
| Subordinated notes | 43 | 46 | (3) |
| Net unrestricted cash, trail book & investments | 200 | 225 | (25) |

| Cash reconciliation | | | |
|---|---|---|---|
| Unrestricted cash | 65 | 84 | (19) |
| Restricted cash (Securities) | 207 | 161 | 46 |
| Total cash | 272 | 245 | 27 |

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# Trail book asset

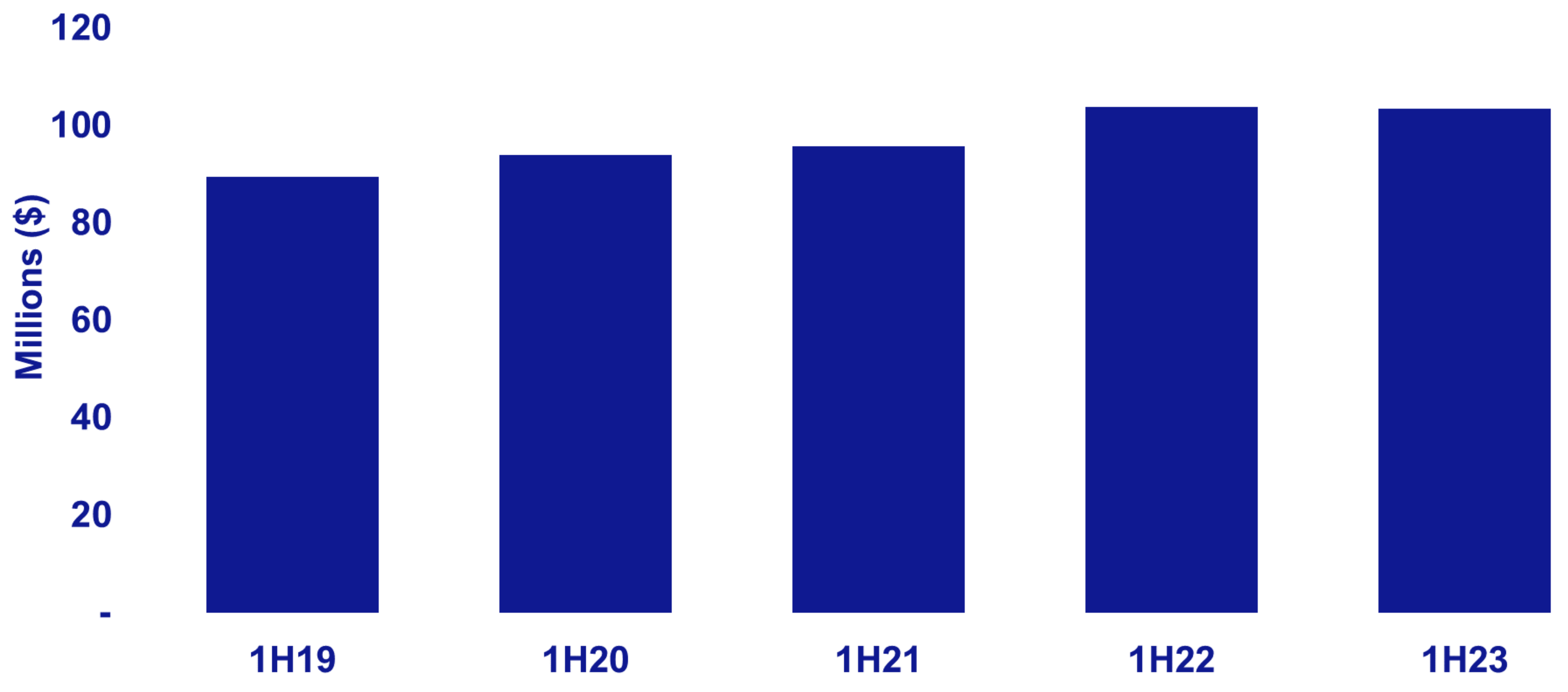
## Key movements

- Trailing commissions are received from lenders on settled loans over the life of the loan based on the outstanding loan book balance
- The net present value of our future trail commissions, represent recurring income, without having to perform further services
- Future trail commissions had a NPV of $103m at December 2022
- The valuation is assessed on a 6 monthly basis, with movements in valuation recorded in the P&L
- The main valuation drivers are run-off rates & new business
- The discount rate applied to each tranche is applied across the life of the loan. Any current movements in the discount rates will only affect the latest trail commission tranche.
- The discount rate is calculated as the risk free rate + counterparty risk factor

**The table below outlines key assumptions used to value trail commissions**

| Key Assumptions | Dec 2022 | Dec 2021 |
|---|---|---|
| Average loan life | Between 3.7 and 4.6 years | Between 3.5 and 4.9 years |
| Discount rate per annum[1] | Between 4% and 13.5% | Between 4% and 13.5% |
| Percentage paid to members[2] | Between 85% and 95% | Between 85.1% and 94.4% |

**The chart below shows the change in the net trail book asset over time**




1. Discount rates once set are not adjusted during the life of the loan. The spread in discount rate captures loans settled in previous as well as the current financial year
2. The percentage paid to brokers is set at the time of settlement of the loan

# Summary
# Balance Sheet

## Key movements

- Unrestricted cash, which consists of cash at bank & short term deposits, decreased by $19m primarily due to payment of BrokerEngine, repayment of debt associated with Fintelligence as well as capital expenditure
- Restricted cash, which primarily represents amounts held in special purpose securitised trusts & series on behalf of the warehouse funders & the bondholder increased by $46m as a result of growth in the AFG Securities' loan book
- Contract Assets primarily represents our trail book commission asset & is partially offset by the trail book commission liability recorded in Trade & Other payables. The net asset was $103m
- Loans & advances represents the AFG Securities program, with the debt facility associated with program represented in Interest bearing liabilities
- Growth in investment in associates represents AFG's share of profit received in the past 12 months from Thinktank
- The increase in goodwill & intangibles between reporting periods represents the Goodwill arising from the Broker Engine acquisition

| $m | Dec 2022 | Dec 2021 | Dec 2022 v Dec 2021 |
|---|---|---|---|
| **Assets** | | | |
| Unrestricted Cash | 65.3 | 84.1 | (18.8) |
| Restricted Cash | 206.9 | 160.9 | 46.0 |
| Trade and other receivables | 12.4 | 7.5 | 4.9 |
| Other Assets | 8.9 | 23.2 | (14.4) |
| Contract Assets | 1,167.7 | 1,121.0 | 46.7 |
| Loans and advances | 4,942.3 | 4,042.5 | 899.8 |
| Investment in associates | 34.9 | 28.4 | 6.5 |
| Goodwill & intangible assets | 91.9 | 91.2 | 0.8 |
| Total assets | 6,530.4 | 5,558.8 | 971.6 |
| **Liabilities** | | | |
| Trade and Other payables | 1,162.7 | 1,103.6 | 59.1 |
| Interest bearing liabilities | 5,050.7 | 4,122.2 | 928.5 |
| Employee benefits | 5.2 | 4.3 | 0.9 |
| Non interest bearing liabilities | 21.0 | 18.2 | 2.8 |
| Deferred tax liability | 26.3 | 26.7 | (0.4) |
| Other Liabilities | 62.8 | 69.1 | (6.4) |
| Total liabilities | 6,328.7 | 5,344.2 | 984.5 |
| Net assets | 201.7 | 214.5 | (12.9) |
| **Equity** | | | |
| Share capital | 102.1 | 102.1 | - |
| Reserves | (13.0) | (12.2) | (0.8) |
| Retained earnings | 90.7 | 106.4 | (15.7) |
| Non controlling interest | 21.9 | 18.2 | 3.7 |
| Total equity | 201.7 | 214.5 | (12.9) |

# Summary Cashflow

### Key movements

- Operating cashflow was $27m a $12m increase against the same period last year. The increase in operating cashflow is primarily associated with the lower 1H FY22 cashflow which was affected by a large commission payment in July 2021.
- Income taxes paid were $7m favourable to 1H22, as a result of lower profit before tax and an income tax refund received.

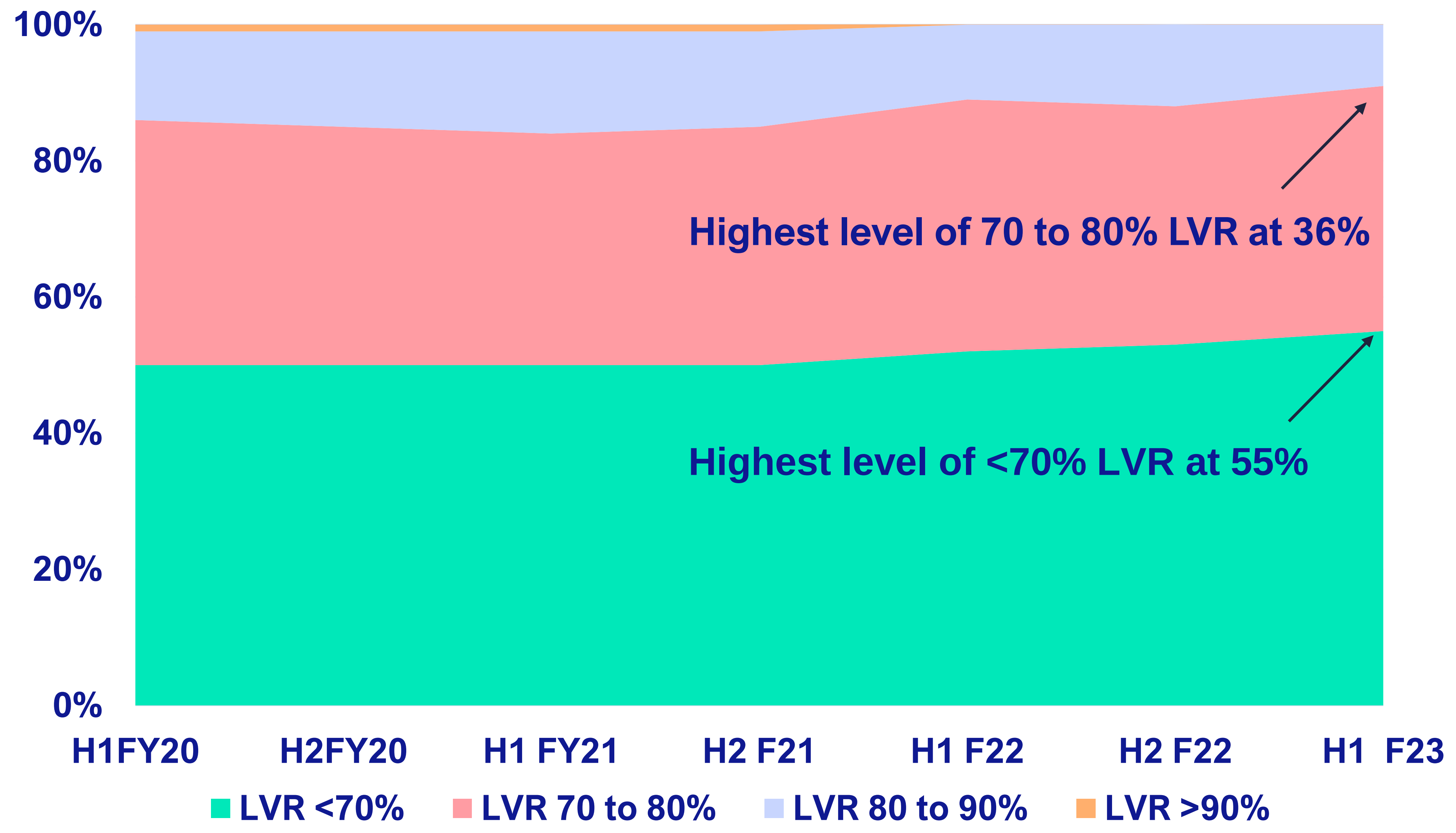
| $m | 1H23 | 1H22 | 1H23 v 1H22 |
|---|---|---|---|
| Cash receipts from customers | 389.0 | 353.6 | 35.4 |
| Cash paid to suppliers and employees | (384.0) | (350.5) | (33.5) |
| Interest received | 121.9 | 50.7 | 71.3 |
| Interest paid | (94.0) | (25.6) | (68.4) |
| Income taxes paid | (6.1) | (13.3) | 7.2 |
| Net cash generated by operating activities | 26.9 | 14.9 | 12.0 |
| Net Interest received | 0.3 | 0.1 | 0.2 |
| Acquisition of property, plant and equipment | (0.2) | (0.3) | 0.1 |
| Purchase of intangible assets | (1.1) | (5.3) | 4.2 |
| Dividend from Thinktank | - | 0.3 | (0.3) |
| Investment in Strategic Investments | (0.9) | (50.5) | 49.6 |
| Broker loans and advances | 0.5 | 0.4 | 0.1 |
| Net loans and advances to borrowers | (139.6) | (635.0) | 495.3 |
| Net cash used in investing activities | (141.0) | (690.3) | 549.3 |
| Repayments of warehouse facility | (1,529.3) | (838.1) | (691.2) |
| Proceeds from warehouse facility | 1,507.4 | 1,610.2 | (102.8) |
| Repayments to securitised funding facilities | (717.4) | (587.3) | (130.1) |
| Proceeds from securitised funding facilities | 891.5 | 478.4 | 413.1 |
| (Repayments)/Proceeds from debt facility | (5.7) | 52.5 | (58.2) |
| Payment for acquisition of debt facility | - | (0.5) | 0.5 |
| Payment of principal proportion of lease liability | (1.2) | (0.9) | (0.3) |
| Dividends Paid | (27.5) | (19.9) | (7.6) |
| Net cash generated by financing activities | 117.8 | 694.4 | (576.6) |
| Net increase in cash and cash equivalents | 3.6 | 19.0 | (15.3) |
| Cash and cash equivalents at the beginning of the period | 268.6 | 226.0 | 42.5 |
| Cash and cash equivalents at the end of the period | 272.2 | 245.0 | 27.2 |

# Expected credit loss provisions

- AFG has a strong history of low credit losses, as a result of insights from over 25 years of data & extensive industry experience
- Arrears have historically outperformed the Australian non-bank sector of the S&P Global Ratings Mortgage Performance Index
- The Expected Credit Loss (**ECL**) provision provides an estimate of credit risk associated with AFG's residential mortgages
- The ECL model (**the Model**) considers the different risk profiles across the different loan portfolios, with assumptions the same across the portfolios
- The Model calculates the probability of Default and Loss Given Default at an individual loan level
- The Model uses a probability weighted loss provision for each loan, with 3 scenarios: a base case, 1 mild deterioration & 1 significant deterioration
- The model utilises a range of macroeconomic inputs, but is most sensitive to assumptions for property price changes, delinquency status & interest rates
- The expected credit loss provision at 31 December 2022 was $2.9m (30 June 2022: $2.9m)
- At 31 January 2023, there were 71 loans in arrears greater than 30 days of 10,999 loans

| LVR | Proportion of Residential mortgages with no LMI & more than 12 months of repayments in advance |
|---|---|
| >=80% | 16% |
| >=85% | 5% |
| >=90% | 1% |

AFG Securities LVR over time

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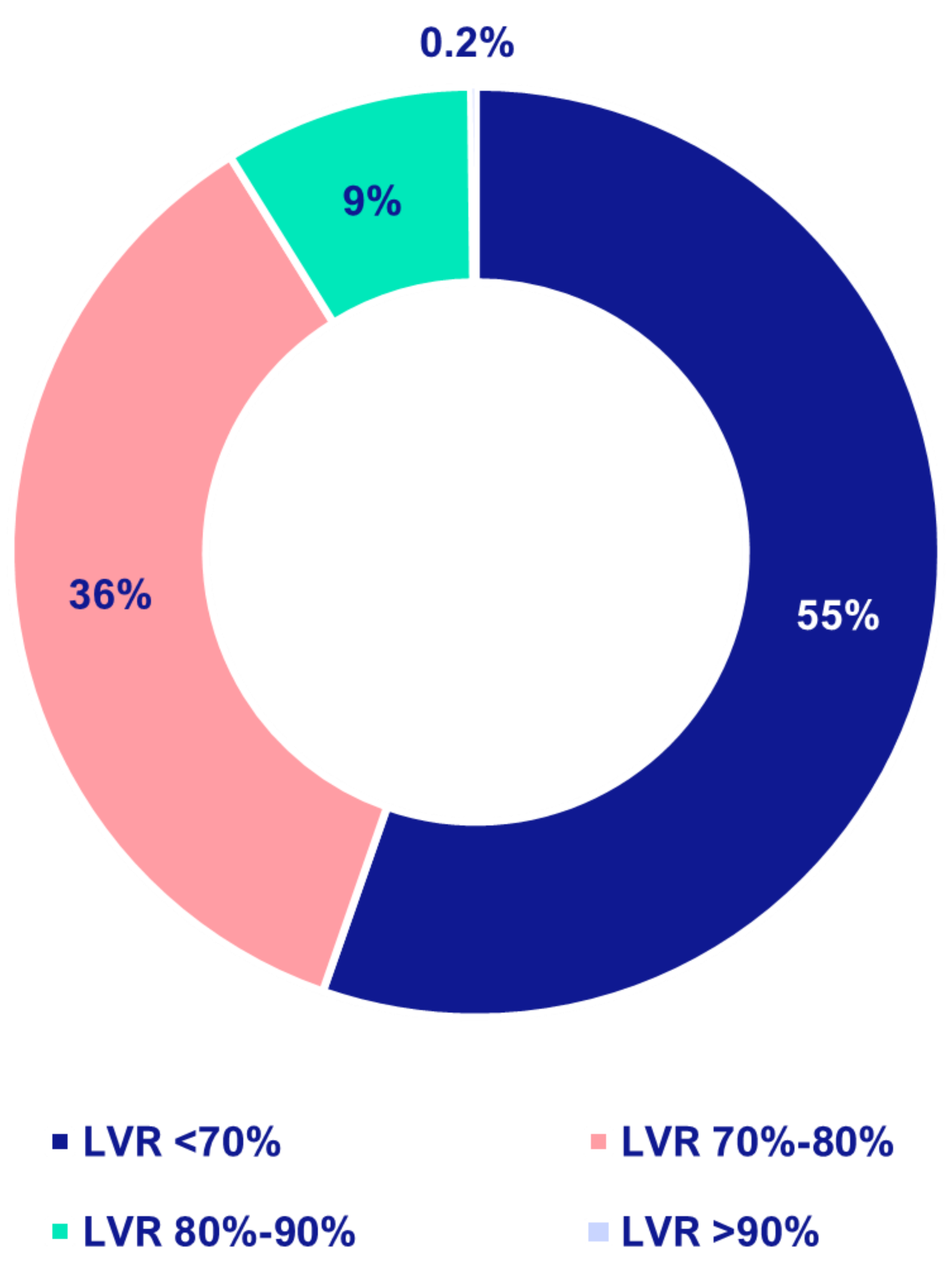
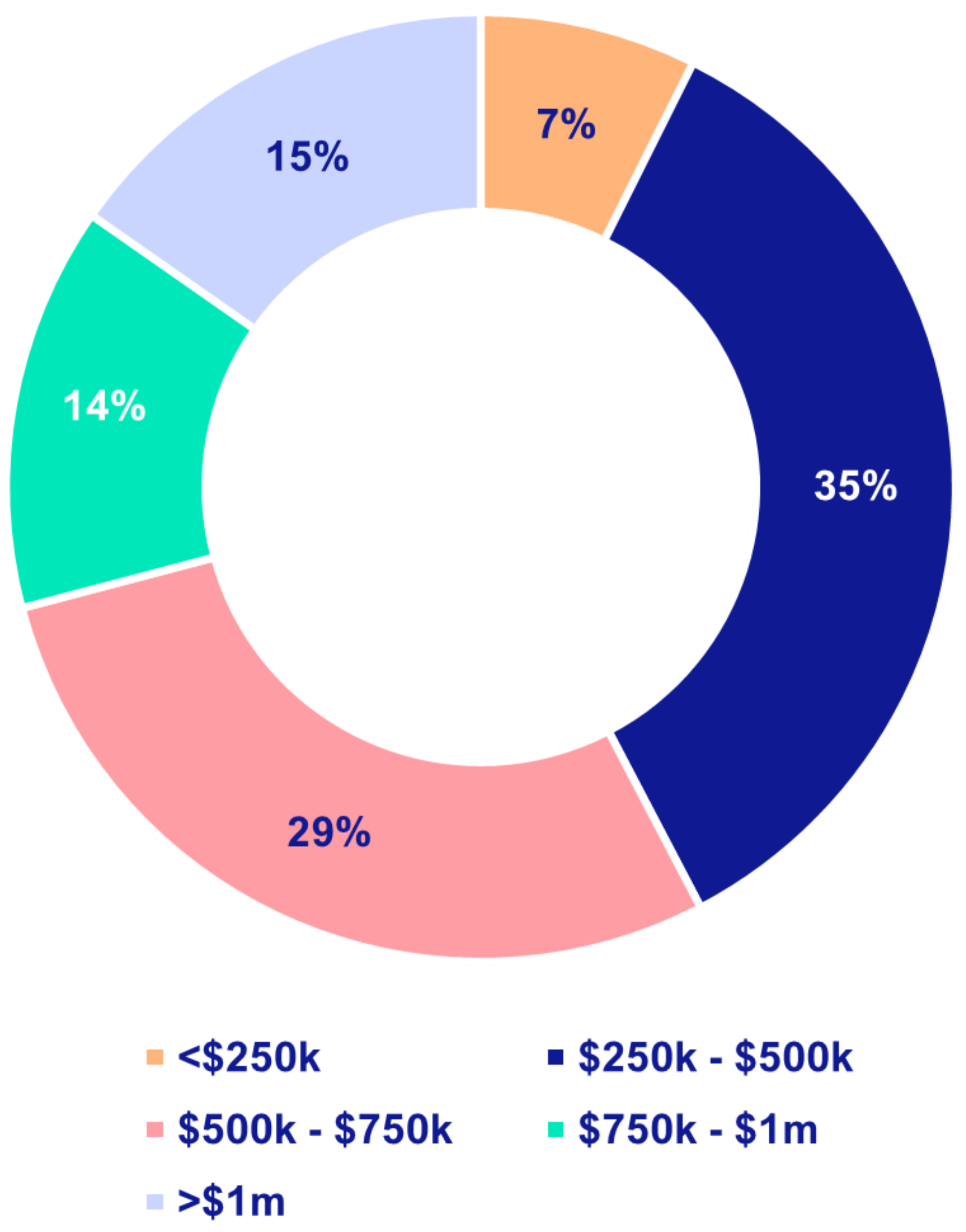
# AFG Securities – Loan quality

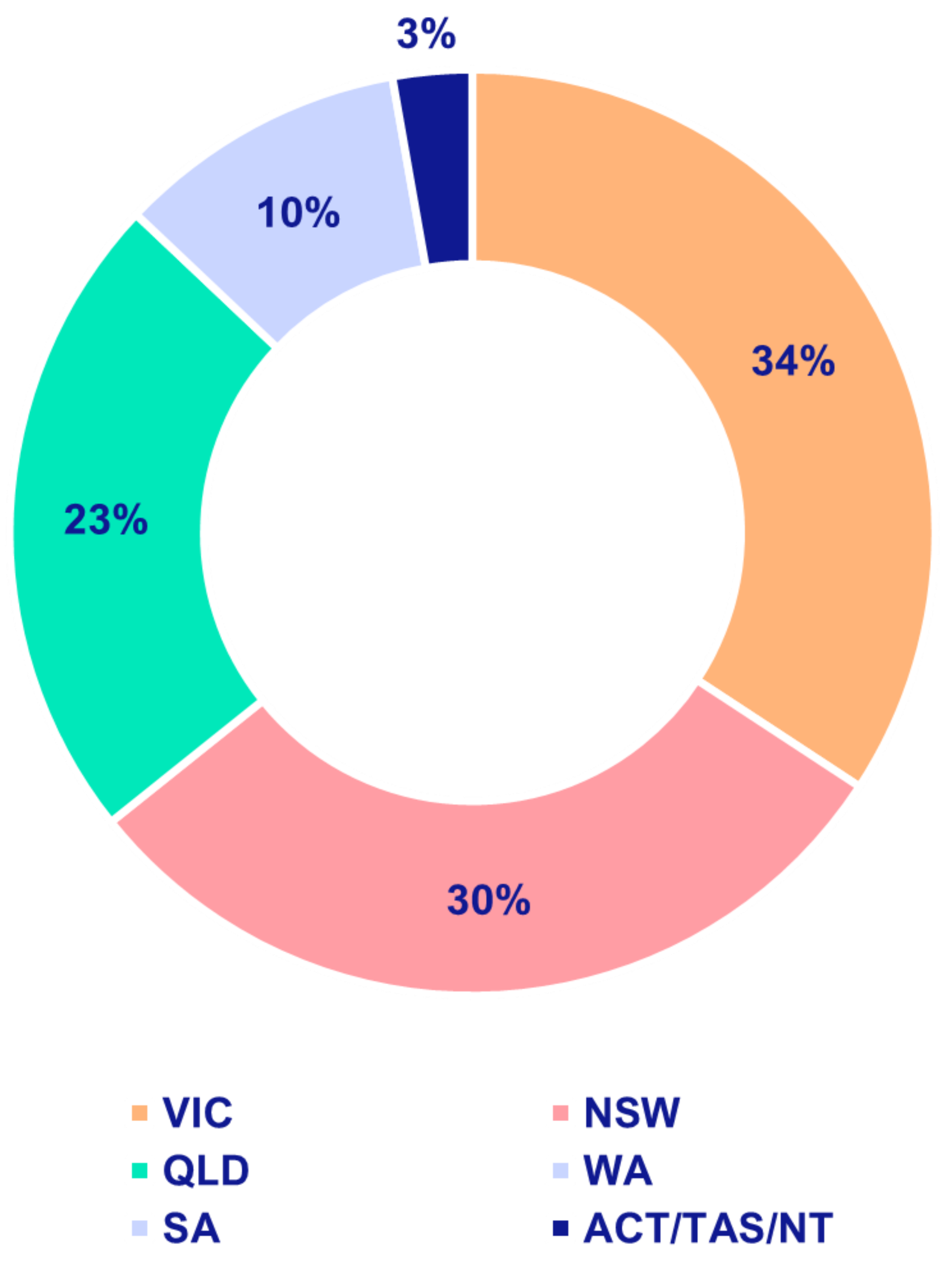
### LVR




### Loan Balance




### Geographic distribution

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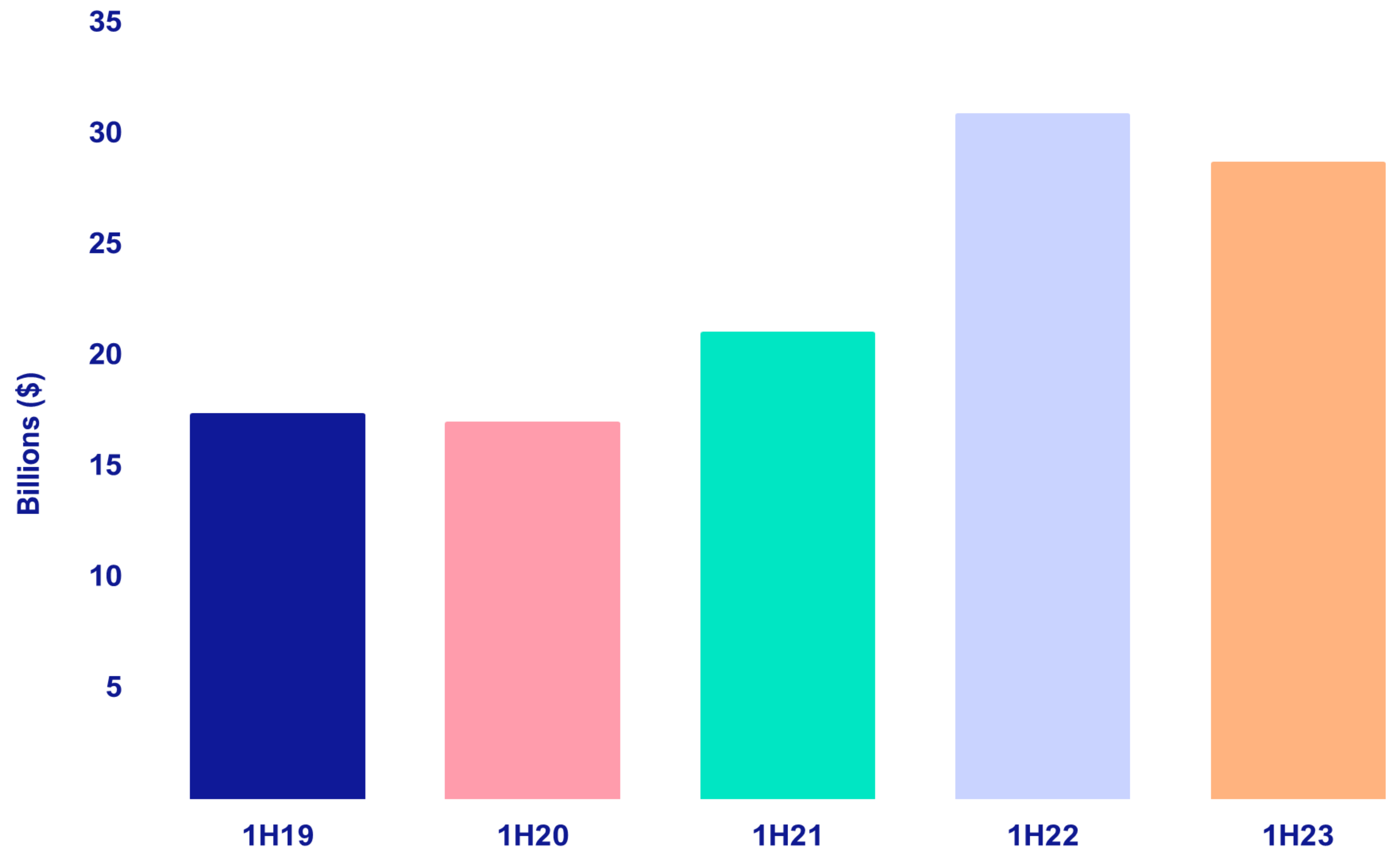
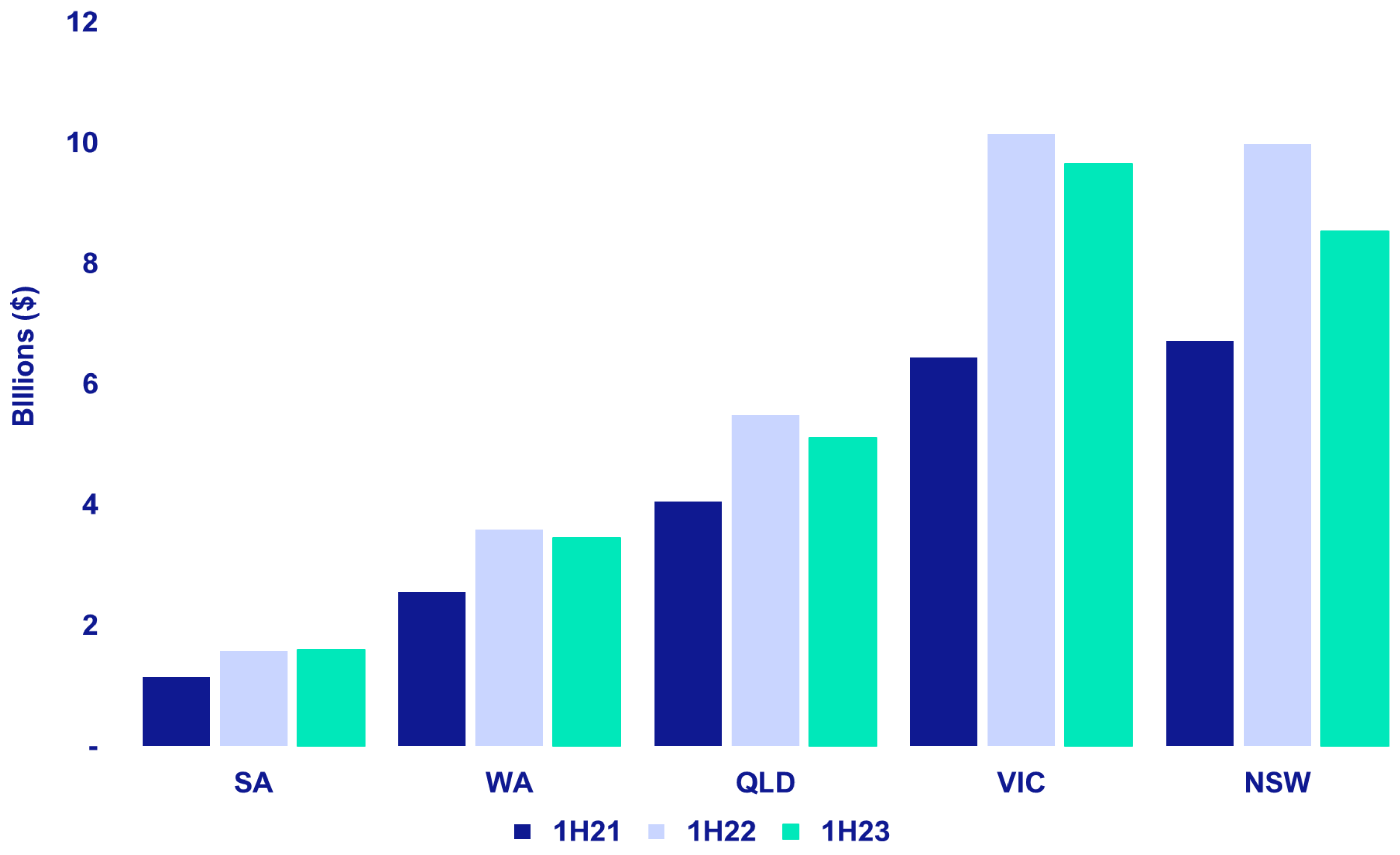
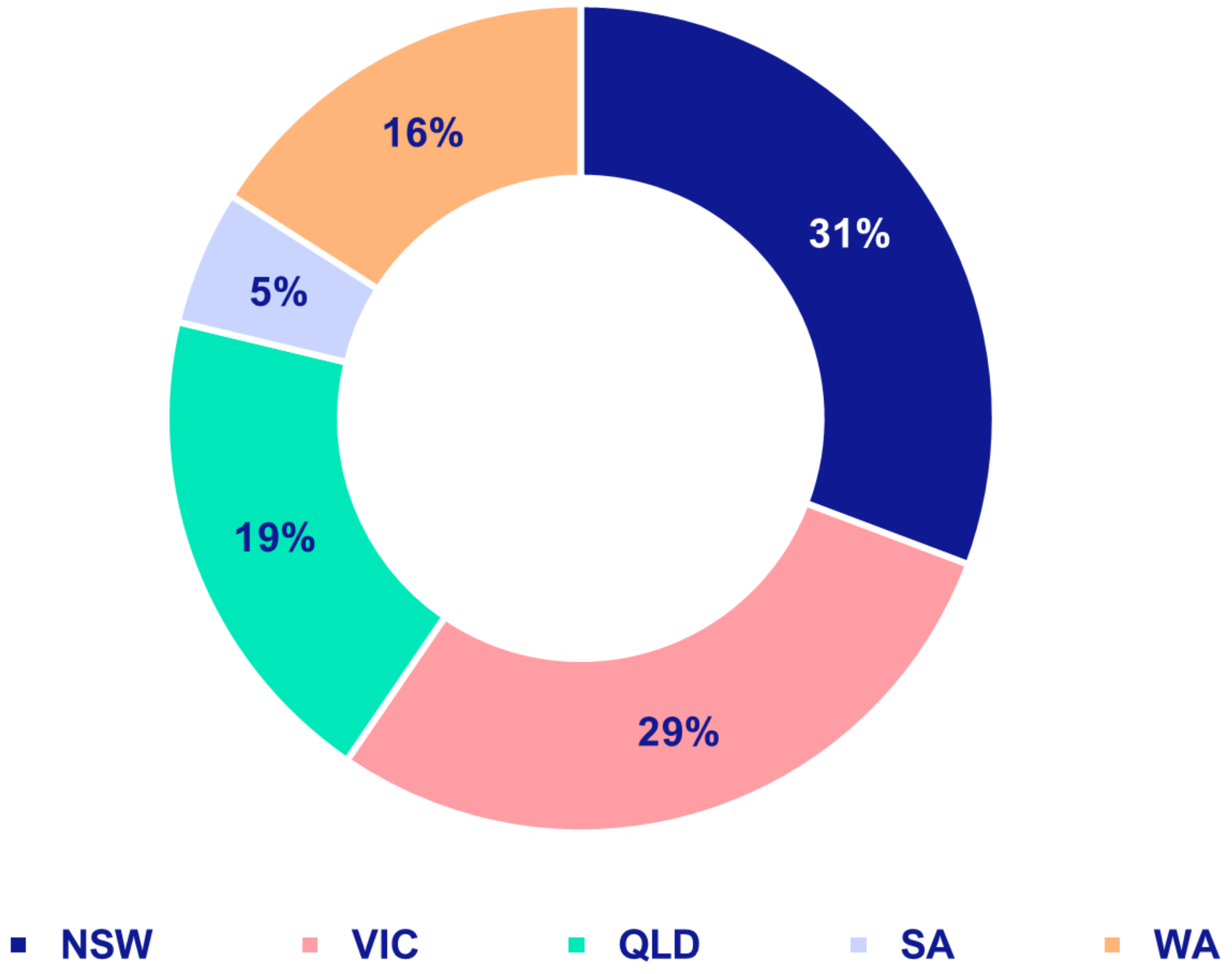
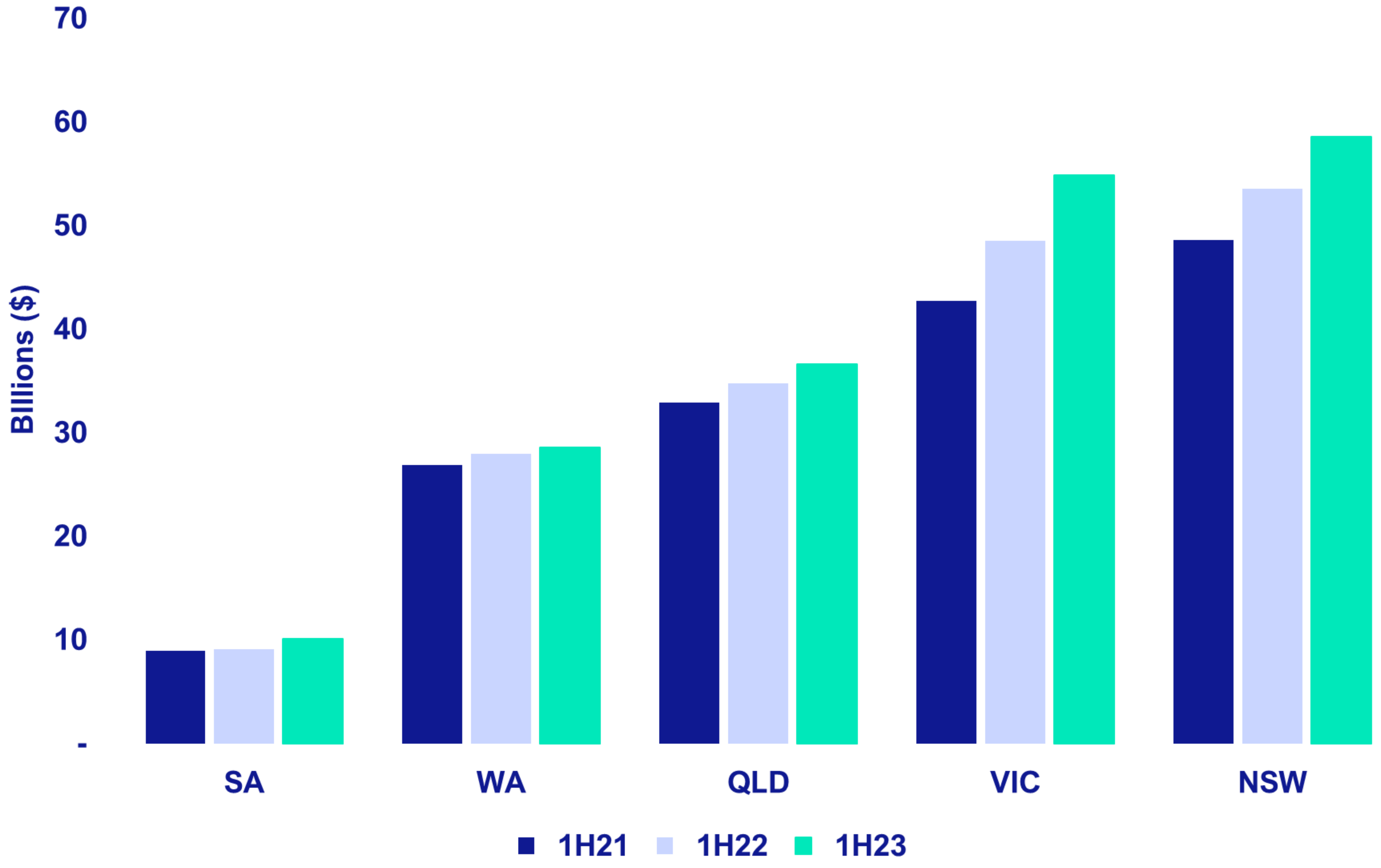
# Residential settlements



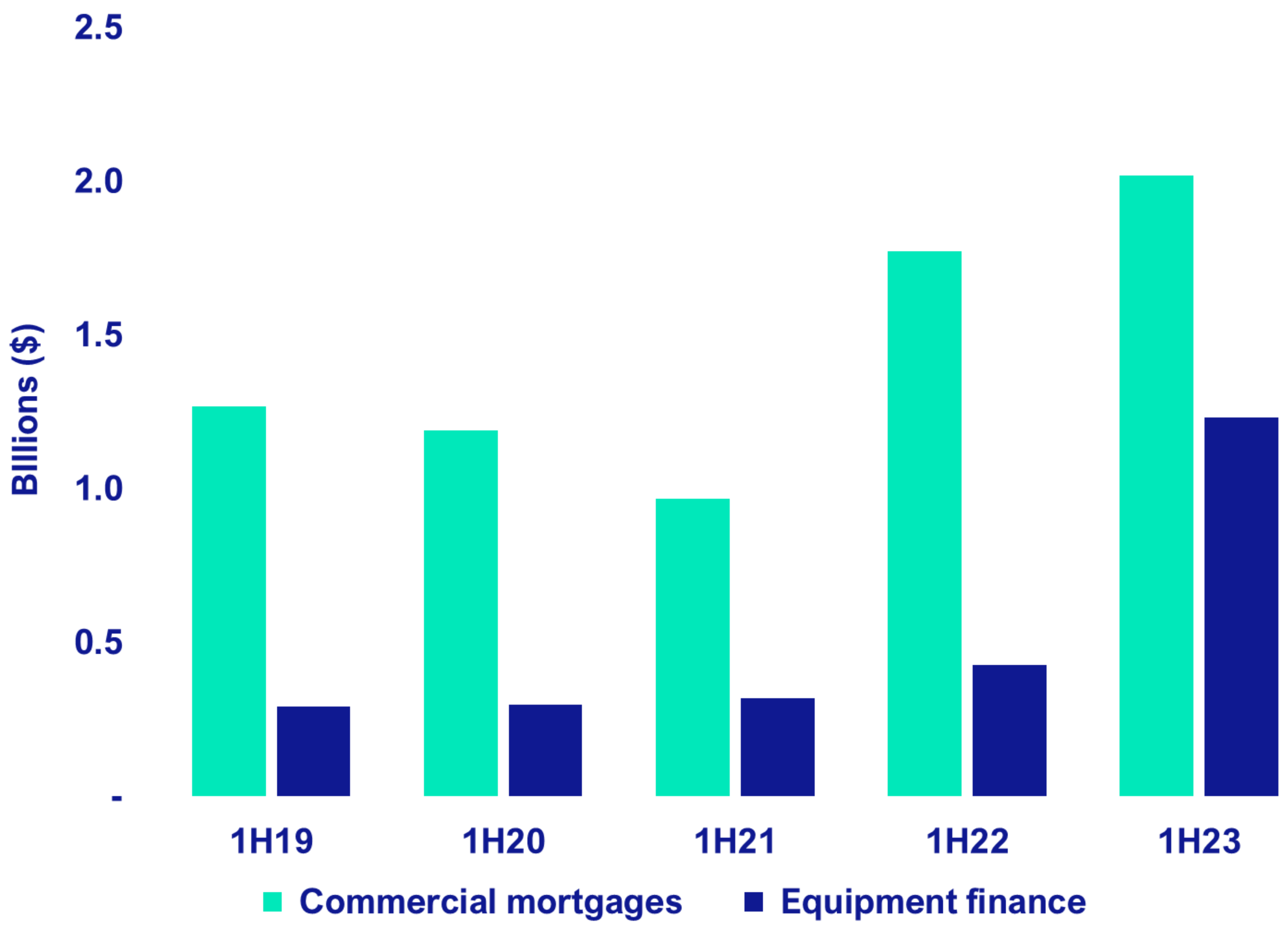



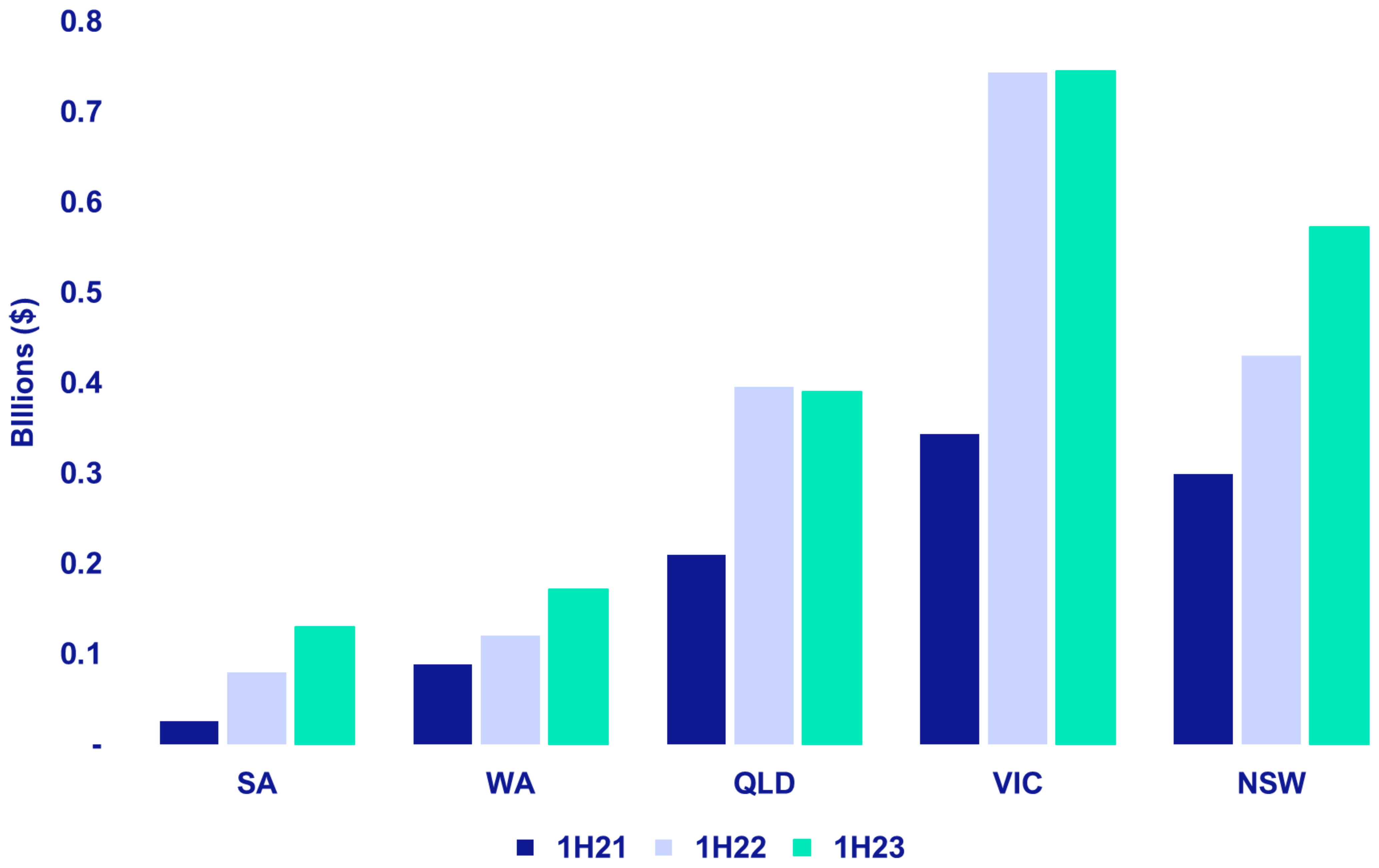
# Residential loan book



# Commercial settlements

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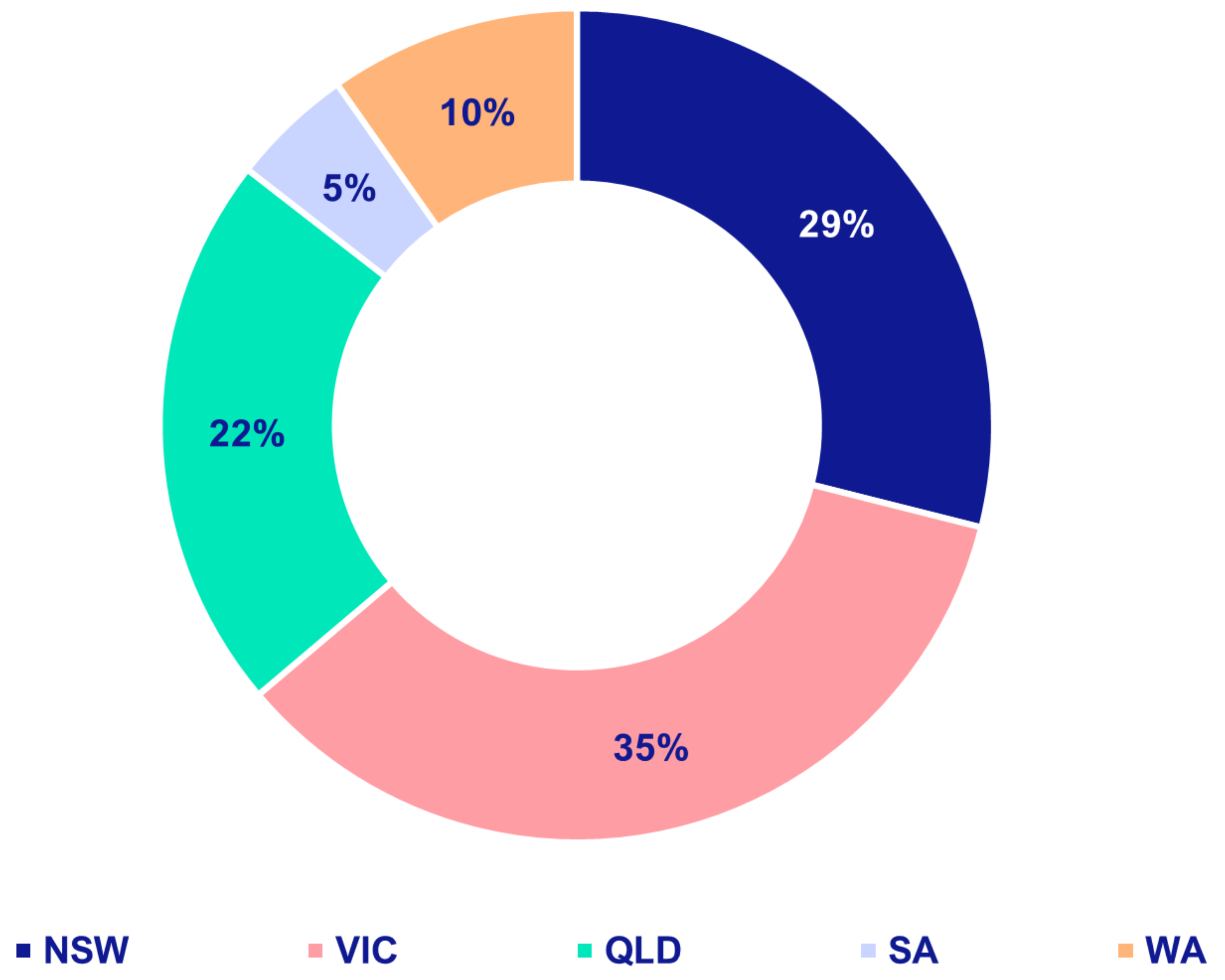
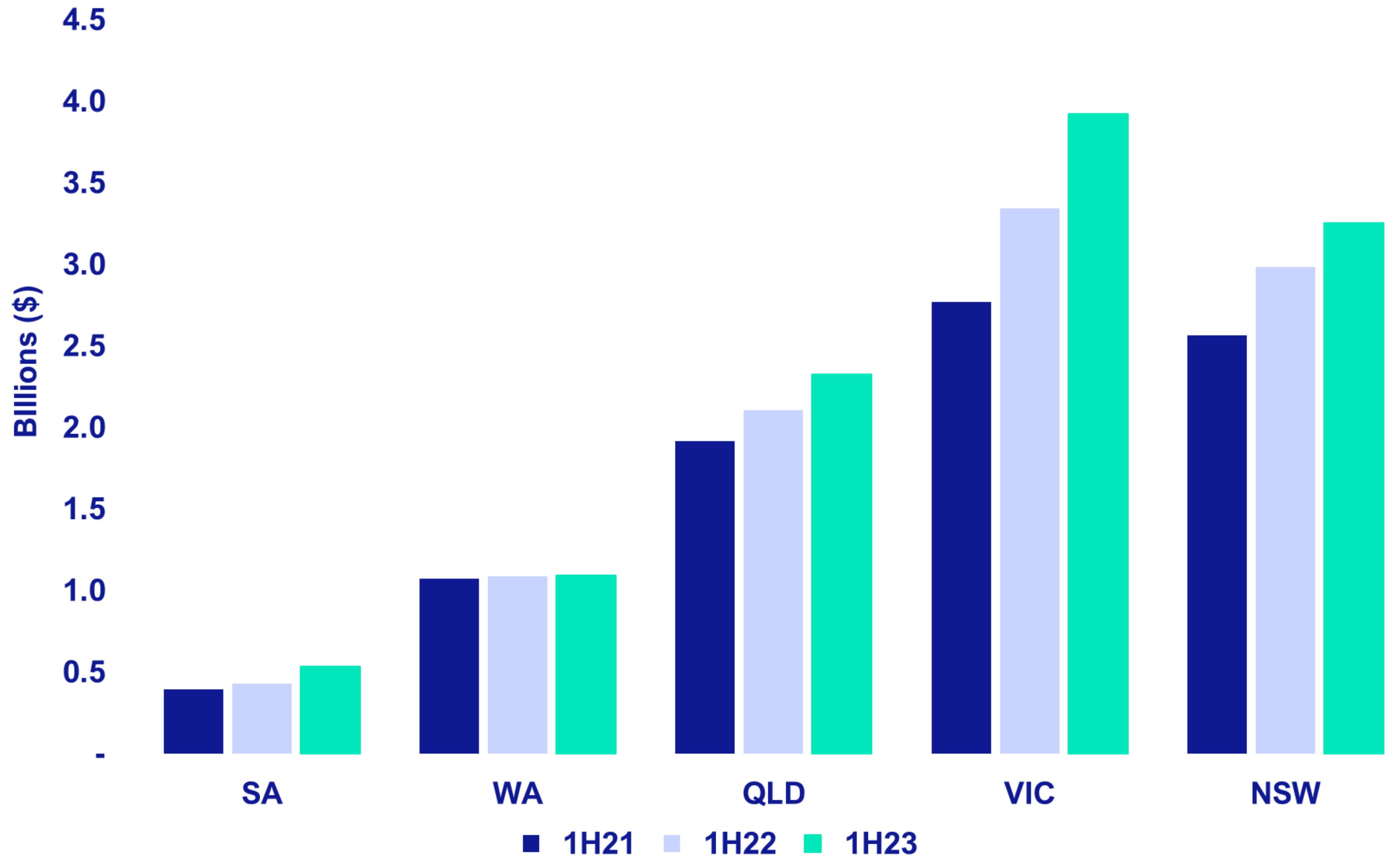
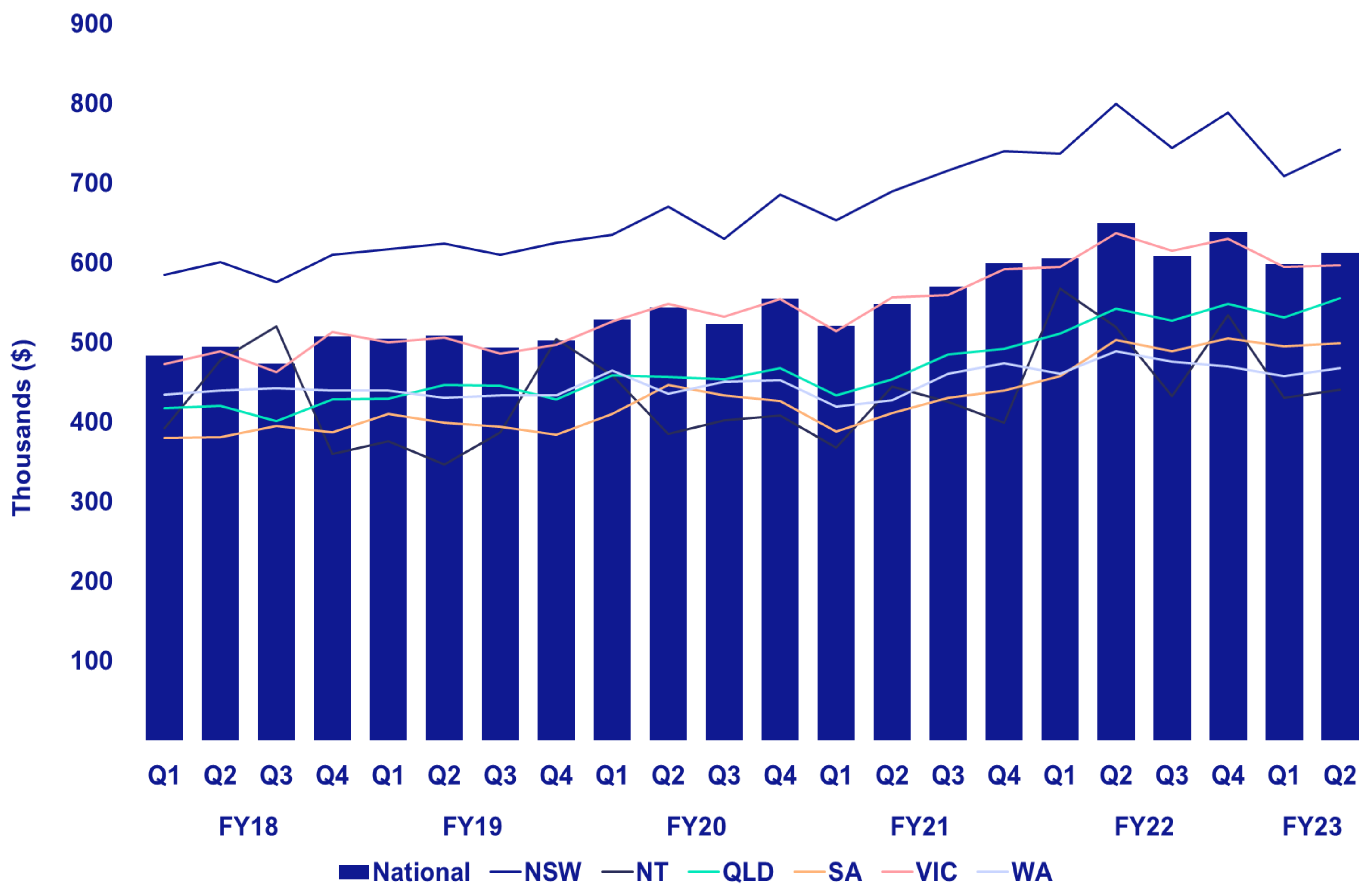
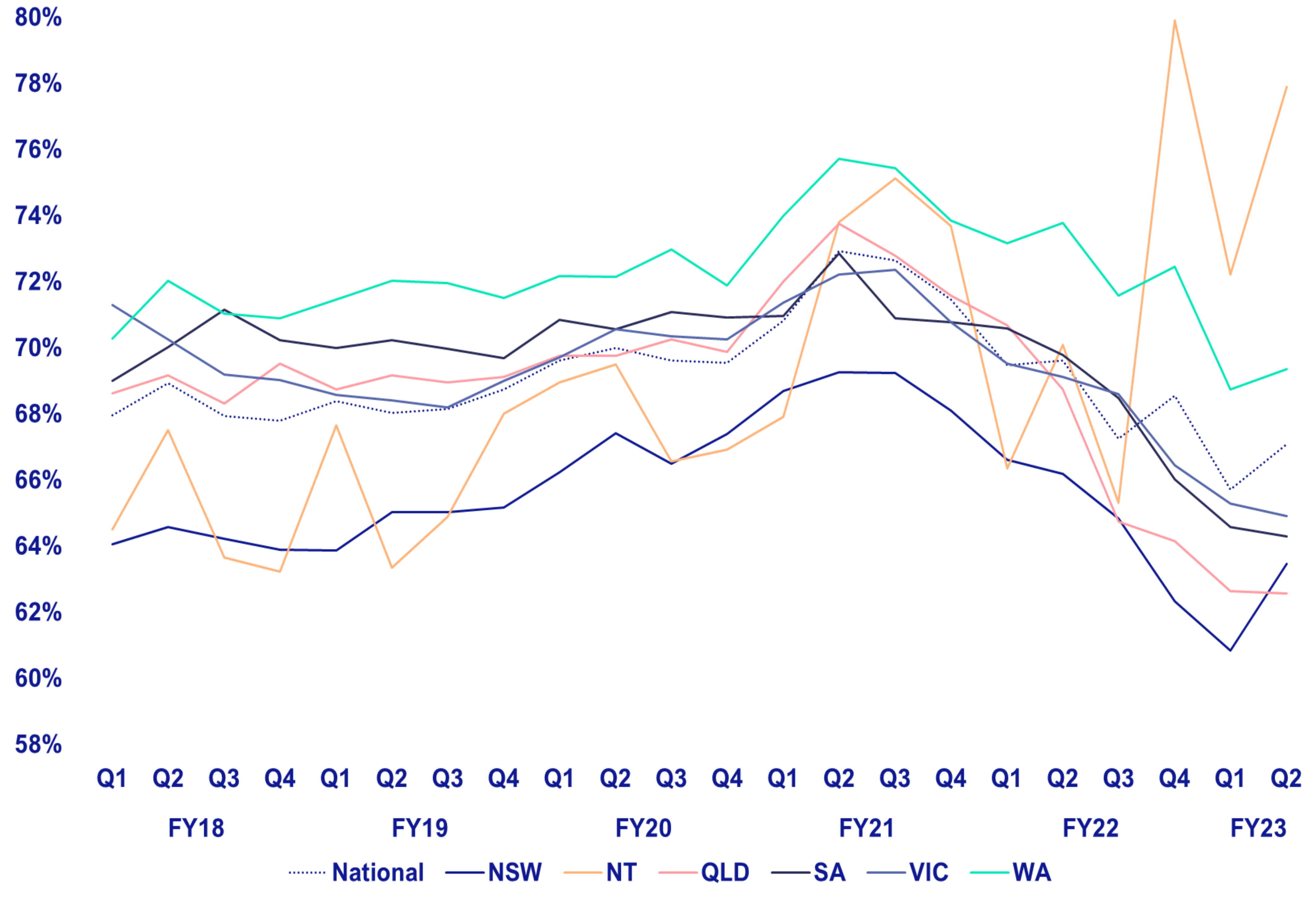
# Commercial loan book



# Lending activity

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# Sustainability

## Environment

**Strategic objectives**
- Measure, report on & reduce carbon emissions.
- Support our carbon neutral ambitions with overarching sustainable initiatives.
- Whole of business approach to our environmental initiatives by engaging with customers, staff & other stakeholders.

**Aspirations**
- Carbon neutral in scope 1 & 2 emissions & those scope 3 emissions that are within our operational control by 2030.

**Key Initiatives**

1. Introduction of office-wide eco-efficiency measures.
2. Reduce travel where possible & offset unavoidable travel emissions from FY23.
3. Partnership with Carbon Positive Australia to revegetate degraded land, with one tree planted for every AFG Securities home loan written.
4. Established staff sustainability committee to take a grass roots approach, complementing management sustainability committee
5. Committed to engaging & educating staff, including through sustainability focused volunteering events in the community.

## Social

**Strategic objectives**
- Preferred place to work for people who share our passion by promoting personal development, inclusion & diversity.
- Improve the gender balance in our industry & champion & support our female staff & brokers.
- Offer meaningful support to our community by partnering with social organisations aligned to our purpose & vision.
- Provide access to financial products to underserved groups, such as the self employed.

**Aspirations**
- Recognised as a preferred employer & aggregator of choice.
- In top 30% of non-banks through external formal recognition of our commitment to community & staff, measured by labour practices & social indicators.
- Products accessible & fit for purpose to provide choice to consumers.

**Key Initiatives**

1. Principal Partner of Foyer Foundation – an arrangement renewed in 2022 for a further 3 years.
2. Women on the Move program – to attract and retain more women in our industry & support female business operators within our network.
3. Support of our staff in all areas stretching from education programs to mental health.

## Governance

**Strategic objectives**
- Highest standard of ethics, integrity, & transparency in all we do. Maintain trust with our customers, staff, suppliers & the community.
- Effective & responsible decision making with robust compliance processes in place.
- A culture that delivers value to our stakeholders & guides our interactions with customers, the industry & community.

**Aspirations**
- In top 30% of public non-banks on governance measures.
- Effective risk management culture embedded across the organisation.

**Key Initiatives**

1. Formally aligned to UNSDGs.
2. Establish management sustainability committee to consider the sustainability impacts of all business activities, including social, environmental (including climate change risk) and governance risks, complemented by a staff team to facilitate a grass roots approach to environmental initiatives.
3. Continued implementation & measurement of sound corporate governance framework & targets.
4. Measurement of staff & executive awareness & actions.
5. Commitment to the Modern Slavery Act & anti-corruption actions.
6. Robust compliance program in place & adherence to responsible lending practices.
7. Strong processes in place to ensure customer privacy & cyber security controls.

# Important Disclaimer

This presentation contains general information which is current as at 23 February 2023.

The information is intended to be a summary of Australian Finance Group Ltd (AFG) and its activities as at 31 December 2022, 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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