

AUSTRALIAN FINANCE GROUP FINANCIAL RESULTS FOR HY2017

24 February 2017

Australian Finance Group (**ASX: AFG**) today reports a net profit after tax (NPAT) of \$13.4 million. This represents an increase of 14.2% on the same period last year and confirms the company's positive outlook. AFG's loan book is now sitting at \$127 billion.

"The HY17 result is a reflection of the company's earnings diversification strategy with strong performance within the AFG Home Loans ("AFGHL") division being the key highlight, coupled with ongoing cost control. AFGHL experienced an increase in settlements of 34%.

Following a slow start to the year, the lending market in Australia is showing credit growth and mortgage brokers are winning market share. As the largest subset of that sector, AFG is translating those conditions into earnings growth.

Highlights

- NPAT of \$13.4 million an increase of 14.2% in a flat credit growth environment
- Interim dividend of 4.2c per share. An increase of 40% on the prior period
- Earnings Per Share (EPS) for HY2017 is 6.2 cents per share up 13.7%
- Profit before tax for the AFG Home Loans business up 97% to \$4.8 million
- AFGHL Loan book of \$4.6 billion – up 44% on the prior period
- Residential settlements steady at \$17.6 billion
- Commercial settlements up by 5.0% to \$1.5 billion
- Combined residential and commercial loan book of \$127 billion
- The Group's balance sheet remains in a strong position to drive future growth opportunities.

AFG Managing Director Brett McKeon said the results are a testament to the Company's focus on maintaining a strong core broking business, which continues to provide competition and choice to consumers as well as our earnings diversification strategy. All of this has been achieved whilst maintaining a relatively flat cost structure. Our platform remains scalable.

"Consistent growth in our distribution network has assisted in generating a strong result for our own branded AFG Home Loans business. Total AFGHL settlements were \$1.24 billion, up 34% from the same period last year and represented 7.2% of AFG's total residential settlements for the period.

"Importantly our AFGHL book now stands at \$4.6 billion which together with strong settlements has helped deliver a profit before tax for the AFG Home Loans business of \$4.8 million up 97% from HY16.

AFG's overall residential loan book grew from \$114.7 to \$120.7 billion in the six months to December 2016 and continued to underpin cash flows and future growth for the Group.

“The residential portfolio showed particularly strong growth in Victoria and Queensland offset by weaker economic conditions in Western Australia. Recent changes to lending criteria together with some ongoing concerns around supply, appear to have impacted the New South Wales market however we are seeing some signs of ongoing growth in recent numbers post the end of the Calendar year,” said Mr McKeon.

“Despite headwinds in property development lending in some states, commercial settlements were up 5% to \$1.5 billion and the commercial trail book is now more than \$6.3 billion.” said Mr McKeon.

Company Outlook

With mortgage broker market penetration of the Australian mortgage market continuing to grow, consumers are clearly indicating a high level of comfort with the competition and choice that the mortgage broking model provides. “We expect this trend to continue as an increasing number of consumers recognise that a mortgage broker is in the unique position of being able to provide a comprehensive view of the alternatives available across lenders and products.

AFG’s value proposition is one of shared success. “We support our brokers with cutting edge technology, systems, learning and development and new digital solutions to make it easier to deliver choice to our brokers and consumers,” said Mr McKeon.

“This offering has helped AFG achieve a record year in the recruitment of high performing brokers, lifting broker numbers to just over 2,800 active brokers working with AFG.

“Our aim from day one remains unchanged; to grow our business in order to grow our brokers’ businesses and we expect recruitment to remain strong.

Ongoing changes to lending criteria from our lending panel are driving more enquiries to our brokers. As highlighted in the most recent AFG Competition Index, non-major lenders have been taking market share from the majors. The major banks dropped market share across all sectors of the market in the final quarter of 2016. “We expect non-major bank participation to remain strong particularly in the shorter term. AFGHL is one of those lenders experiencing growth,” said Mr McKeon.

“Long term growth in the market highlights the value mortgage brokers bring to the lending landscape. By providing a vital distribution network for lenders both large and small, mortgage brokers help drive competition and deliver choice to those Australians seeking to secure finance. AFG is well placed to continue to be the market leader,” concluded Mr McKeon.

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CONTACT DETAILS

Further information:
Brett McKeon
AFG Managing Director
+61 8 9420 7888

Media:
Alison Clarke
AFG Head of Corporate Communications
+61 402 781 367