MORTGAGE CHOICE AGM 2018
CHAIRMAN'S ADDRESS

2018 was a year of review and necessary change to recalibrate the business for a long term sustainable future. Central to this was our vision to be Australia's leading provider of financial choices and advice, delivering exceptional value for our customers and profitability for our franchisees and shareholders. In FY18 we delivered a cash NPAT of $23.4m and a total shareholder dividend of 18 cents per share fully franked.

Our strategic activities were conducted in a climate of legislative uncertainty and regulatory scrutiny, and resulting speculation about the future of the mortgage broking industry. Despite these headwinds, we reconfirm the valued role quality brokers and financial planners play in assisting customers achieve their financial goals. We continue to believe brokers are good for competition and the benefits of this competitive tension flows to consumers. Customers value their assistance as they navigate the financial products on offer to find those that best suits their needs.

Your Board and management undertook two major strategic activities over the last financial year. Firstly, following a period of consultation with our network, in July 2018 we announced a new broker remuneration model, to provide franchisees with higher pay and reduced income volatility. Secondly, we invested in our IT platforms to improve broker efficiency. This upgrade to our technology will continue into FY19.

Key to achieving our strategic goals, is the appointment of Chief Executive Officer of Mortgage Choice, Susan Mitchell, following her successful nine-year tenure as our Chief Financial Officer. Susan is widely respected by our stakeholder community and highly committed to evolve and build the business.

We have seen our share price *shift* this financial year in line with market sentiment in response to the uncertainty of recommendations and outcomes from the Royal Commission into Misconduct in the Financial Services Industry, as well as from the initial media coverage surrounding the change in the new broker remuneration model. I would like to thank you, our shareholders for being patient and supportive during this time.

Our strategic intent for FY19 is to build a platform for growth and long term sustainability and to deliver upon our key focus areas, which are to:

- Embed new remuneration models with all of our franchisees across the broker and advice businesses.
- Increase operational efficiency whilst improving the support experience for franchisees.
- Drive greater brand awareness and a better customer experience.
- Re-position Mortgage Choice as an aggregator of choice for the recruitment of potential franchisees and loan writers.

Looking ahead, I believe these business priorities will deliver long term value for our customers and profitability for our franchisees and shareholders.

I'd now like to cover the changes the Board has made to our executive remuneration strategy.

Following the second strike at last year's AGM, the Board took specialist advice from AON Hewitt to improve the alignment with executive pay and performance.

Those recommendations were considered and the Board has outlined the revised remuneration structure in the 2018 annual report.

In brief, the key changes the Board has put in place for FY19 are as follows:

- A newly structured CEO Salary
- Established a revised KPI-driven STI Performance Framework, that will no longer contain an NPAT component.
- And, NPAT will now be used as a Group modifier.

In this approach, I believe the Board has found the right balance between protecting shareholders' interests and motivating and retaining the key management talent that is vital to the future success of Mortgage Choice.

At last year's AGM, I flagged there would be Board renewal during FY18 and I take this opportunity to thank Deborah Ralston for her 13-years as Director during which she made a significant contribution to Mortgage Choice.

The Board has been strengthen by the addition of Sarah Brennan and Andrew Gale earlier this year. Both bring deep financial services expertise through their complementary skills and experience. Board renewal is as ongoing process and we expect to make further changes in the year ahead.

I am honoured to be your Chairman and I close by thanking our customers, our franchisees, our staff and our shareholders for your continuing support.

MORTGAGE CHOICE AGM 2018
CEO'S ADDRESS

Good morning everyone. My name is Susan Mitchell and I am the CEO of Mortgage Choice.

Although I have been at Mortgage Choice for over nine years as the CFO, this is my first AGM as CEO and I'm delighted to be here.

I will briefly touch on the highlights of the FY18 full year financial results, as presented in August, before providing you with an update on the market, the challenges and opportunities ahead for Mortgage Choice and our strategic priorities.

FY18 Performance Highlights

Our FY18 cash net profit after tax result was $23.4 million, which is up 3.3% on FY17.

The underlying IFRS NPAT was $25.6 million. Final statutory NPAT was $4.2 million after accounting for two adjustments relating to a change in run-off as well as the introduction of our new broker remuneration model.

Launched on 12th July, the new broker remuneration model was the first step in a company wide change program aimed to ensure we have a sustainable business and a strong platform for growth over the long term. The new model was the result of extensive consultation across the network and I'm pleased to say that over 90% of our franchisees have already opted in and the feedback from the network has been positive. Increased remuneration will allow our existing franchisees to invest in their businesses by putting on loan writers or additional admin support.

FY 18 settlements, as compared to FY17, decreased 7% to $11.5 billion, whilst our loan book grew to $54.6 billion.

The new broker remuneration model aims to increase settlement volumes and market share over the medium to long term.

The Financial Planning business continued to grow. Funds Under Advice grew to $733 million and Premiums in Force to $28 million. Gross revenue was up by 10% and net profit up 116%.

Our final dividend of nine cents per share took the full-year dividend to 18 cents fully franked, which is up half a cent on the previous year.

Demand for Broking Services is Strong

As we look forward now to FY19 and beyond, it is important to understand what's occurring in the broader market.

In FY18, the average approvals per month for the year were approximately $32.5 billion, which was in line with the average for the previous year. Over the last five months from April, following the first round of Royal Commission hearings, to August (which is the last month on which we have market data), we have seen a reduction in approvals to approximately $31.3 billion arising from a softening property market and a tightening credit market –a fall of 4%. At the same time, broker usage remained strong at 53.9% for the June quarter, which is not surprising given the increasing complexity of securing a home loan.

MOC Settlements

Whilst it's too early to tell what the impact of the changes in the property market and a tightening credit regime will have on our annual settlement results for FY19, we are seeing a recalibration in the length of time it takes to get a loan application through the process. Borrowers are being asked to supply more backup, living expenses are falling under additional scrutiny and borrowers are borrowing less. This is our anecdotal evidence and we expect it to see the effect on our settlements as we move through the first six months of the financial year.

Lender Mix

Interestingly, we have seen a change in our lender mix. The percentage of Mortgage Choice residential settlements with the four pillars fell to 42% in FY18. Market share was lost to smaller banks and niche lenders. If I were to include St George and Bankwest we still saw a fall in the major lenders from 62% to 57%. Lending criteria has tightened at the majors, allowing increased opportunities for smaller lenders and niche players.

Outlook for Mortgage Broking Industry

The big story of the year is what's going on in the regulatory arena. The ASIC review of broker remuneration was distributed in March 2017. The Royal Commission into misconduct in banking began in earnest in March 2018 with an interim report released in September. The Productivity Commission released its final report in July. The Treasury responded to the Royal Commission in July. Deloitte Access Economics released its report on the value of mortgage broking in July. And the Combined Industry Forum continues to review and roll-out responses to the recommendations from the March 2017 ASIC report.

That is a lot of attention on financial services and the mortgage broking industry in particular. My takeaways are that first and foremost the enquiries recognise the crucial importance the broker sector offers to competition within the financial services industry. **Secondly**, there is a demand for higher level of governance and care to the consumer. **Thirdly**, there is pressure from some factions that support a single fee as payment for broker services. This is not supported by the ASIC remuneration review or Treasury's response to the Royal Commission.

I do not expect much movement on any front until after the Royal Commission delivers its final report in February.

Meanwhile, the demand for the services of a broker remains strong with 53.9% of loans originated by mortgage brokers. As credit policy tightens and rapidly changes, brokers provide in-depth knowledge in a complex world. The broking industry helps drive down interest rates, creates better outcomes for consumers and provides vital competition, which is important for the structure of our banking system. The broking industry provides financial education and price discovery to the consumer and provides them choice of lender, and an experienced helping hand working through a difficult, time consuming process. This results in strong levels of customer satisfaction with more than 90% of homebuyers saying they are happy with their mortgage broker.

Opportunities in Financial Planning

There is rapid change occurring in the financial advice sector as well. Three of the four major banks are considering how to divest large portions of their wealth business. This is set against a background of increased educational requirements and increased pressure on grandfathered commissions from the Royal Commission.
This presents an opportunity for Mortgage Choice to focus on recruitment of more quality advisers. Mortgage Choice offers a unique proposition. The opportunity for professional advisers to own their own business and provide integrated advice alongside professional brokers. Our model was developed in a post FOFA world and as such has no reliance on grandfathered commissions. We are not part of a group that develops product. We are not vertically integrated.

Our proposition will be further strengthened by the introduction of a new remuneration model, which we expect to be finalised this month. We are also planning to invest in a new IT platform to reduce the cost to serve for Mortgage Choice and for our advisers, while improving the customer experience.

Building a Platform for Growth & Long Term Stability

Before I open for questions, I would like to talk about our **Priorities for FY19** .
In July 2018, we announced that we had commenced a company wide strategic change program to provide a platform for growth and long term sustainability.

Our **focus** in the first quarter of this financial year was to ensure the new remuneration model is embedded into the network and that the franchisees have every opportunity to invest in their businesses. As I mentioned before, more than 90% of our broker franchises have already opted in. We are also completing the review of adviser remuneration model as noted earlier.

As a part of our **focus** on operational efficiencies, we successfully completed a pilot of our new Broker Platform and the full roll out is now in progress. This purpose built loan origination platform will significantly improve broker efficiencies and the customer experience. We will continue to improve this platform throughout 2019 adding task management and an integrated fact find. We are also building an improved Online Help Centre to allow our franchisees to access help more quickly and more effectively. This initiative, along with an operational review of group office processes, is important as it will allow us to grow in future, whilst controlling our cost base.

Our **third** priority is to shift the focus on marketing spend from pure lead generation to brand awareness and engagement. This will ensure long-term brand health.

The **final** priority for the year will be a focus on recruitment. Our new remuneration model and improved loan origination platform will position Mortgage Choice as the aggregator of choice for potential broking franchisees and loan writers. Likewise, a new adviser remuneration model and new advice IT platform will position us well for attracting new advisers.

The Mortgage Choice leadership team and I are committed to delivering this company wide change program to provide a platform for growth and the long term sustainability of Mortgage Choice.

Whilst the environment we operate in presents us with a lot of uncertainty, there are also many opportunities. Mortgage Choice is well placed to take advantage of these opportunities and continue to provide Australians with credit and financial advice from experts they can trust.

24 October 2018

Mortgage Choice Ltd
FY18 Annual General Meeting

Presented by Vicki Allen (Chairman) and Susan Mitchell (CEO)

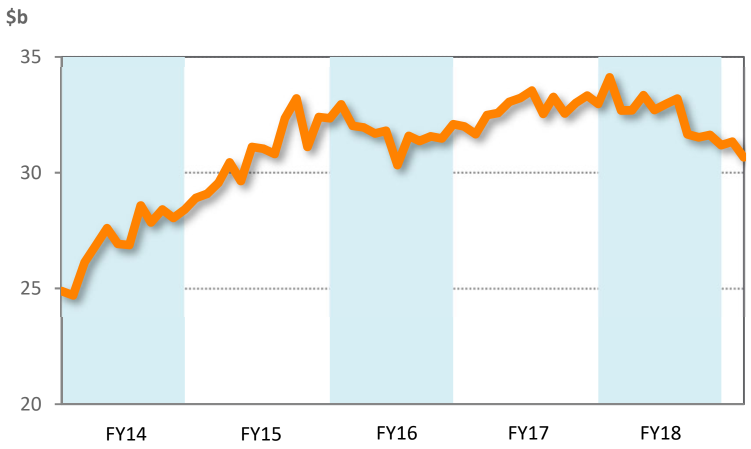
CEO address

FY18 performance highlights

		FY18		FY17		FY18 vs FY17	
NPAT	- Cash	23.4	m	22.6	m	3.3%	▲
	- IFRS	25.6	m	21.0	m	21.9%	
	Adjustments to NPV for run-off and other assumptions	7.1	m	1.2	m		
	Adjustments to NPV due to model changes	(28.5)	m	-	m		
	Statutory result	4.2	m	22.2	m	(80.9%)	▼
Mortgage broking	- Loan book	54.6	b	53.4	b	2.3%	▲
	- Settlements	11.5	b	12.3	b	(7.0%)	▼
Financial Planning	- FUA	733.5	m	532.4	m	37.8%	▲
	- PIF	27.8	m	24.2	m	15.1%	▲
	- FP gross revenue	11.3	m	10.2	m	10.4%	▲
EPS	- Cash	18.7	c	18.1	c	3.3%	▲
	- IFRS	3.4	c	17.8	c	(80.9%)	▼
DPS	- Ordinary	18.0	c	17.5	c	2.9%	▲

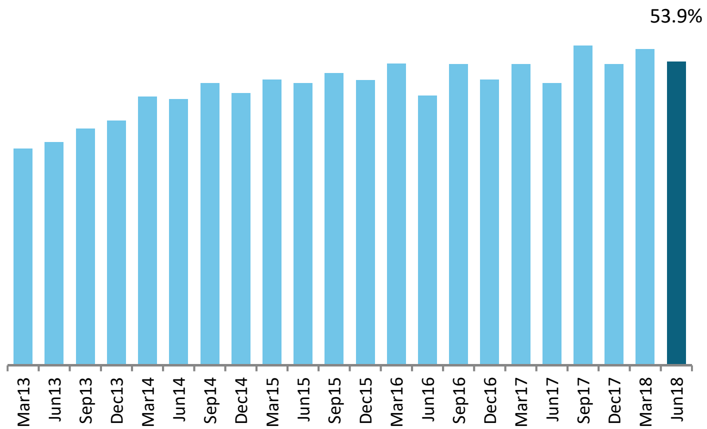
Demand for broking services is strong

Housing Finance, ABS



Housing finance source: ABS 5609 Table 11 – Housing Finance, Australia, Aug18 (Seasonally adjusted series)

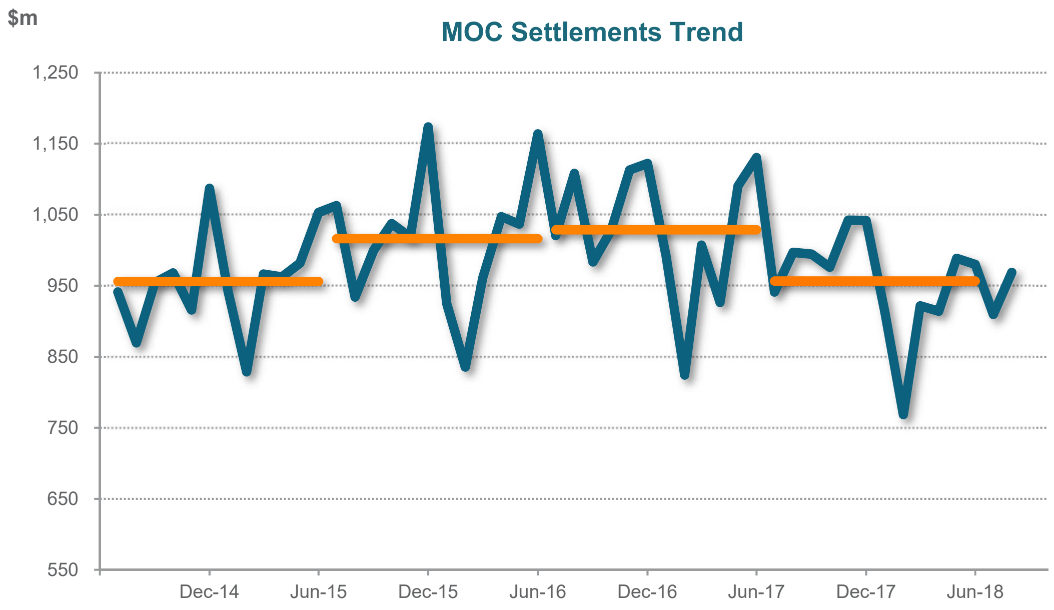
Broker Usage, MFAA



Broker usage source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Jun18 report

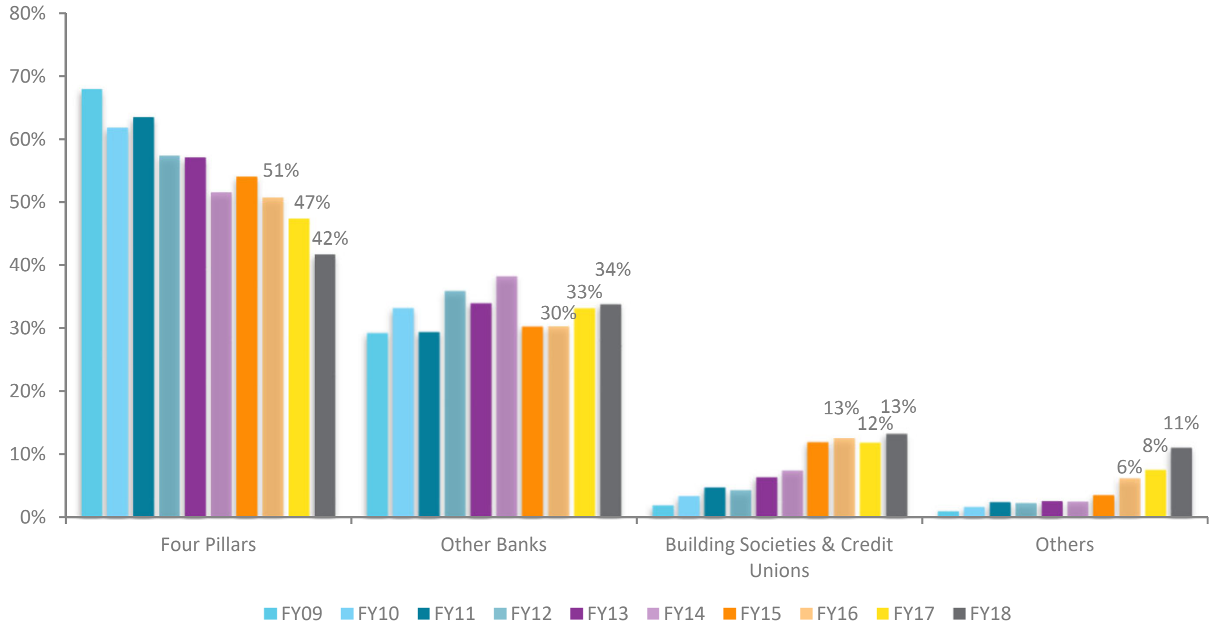
- Average approvals per month were $32.5 billion in FY18, in line with last year ($32.8 billion). Tightening credit policies and a softening housing market have resulted in approvals dropping to an average of $31.3 over the last five months (April – August 18).
- Broker market share continues remains strong with 53.9% of home loans originated via a mortgage broker. This is not surprising given the increasing complexity of securing a home loan.

Settlement volumes recalibrating in line with market conditions



- Settlement volumes in July and August were down 3% year-on-year
- Changes to the broker remuneration model are expected to address the fall in settlements over the medium term

Mortgage Choice residential settlements by lender



Annual Figures from FY09 to FY18
Four Pillars includes primary brands CBA, ANZ, NAB and Westpac

- Four pillars continue to lose market share as consumers increasingly look to smaller banks and niche lenders
- Four pillars including St. George and Bankwest fell from 62% to 57%
- As lending criteria tightens, opportunities arise for some of the niche lenders
- Mortgage Choice Home Loans accounted for 8% of total settlements (categorised in Others)

The outlook for the mortgage broking industry

There have been numerous inquiries and reports speculating about the future of the mortgage broking industry:

- The **Australian Securities and Investments Commission** found that mortgage brokers play a very important role in the home loan market.
- **Treasury** acknowledges that mortgage broking, by serving the interests of consumers, has an important role to play in enabling competition.
- **Productivity Commission Review** into *Competition within the Financial Industry* confirmed the value of mortgage broking but recommended the removal of trail commissions.
- Mortgage Choice is an active participant in the **Combined Industry Forum** (CIF).
- Interim report from the **Royal Commission** released in September. The final report with recommendations will be published in February 2019.

Demand for the services of a broker continues to grow

- 53.9% home loans are originated by mortgage brokers^
- As credit policies tighten brokers provide in-depth knowledge of complex loan writing requirements
- The broking industry encourages competition, helps drive down interest rates and creates better customer outcomes
- Robust distribution channel services regional customers that struggle to get assistance from the banks
- 51.7% broker originated loans come from smaller lenders other than the Big 4^
- Strong levels of customer satisfaction exist with more than 90% of homebuyers saying they are happy with their mortgage broker's performance^

^Sources: Deloitte Access Economics Report 'The value of mortgage broking' and MFAA's quarterly survey of leading mortgage brokers and aggregators – Jun18 report

Opportunities in financial planning

Industry in Transition

- Rapid change continues in the financial advice space (i.e. vertical integration business model in question)
- Restructuring of wealth businesses across a number of Australia's financial institutions provides Mortgage Choice with the opportunity to attract quality advisers to the MCFP network in FY19.
- This is happening at a time when a new series of regulatory reforms are set to come into force, including new competency standards for financial advisers set by the federal government's Financial Adviser Standards and Ethics Authority (FASEA).

Mortgage Choice Financial Planning – a unique proposition

- Mortgage Choice will offer opportunities to quality advisers looking to change licensees or transition from institutions to start up their own advice business, with the full support of a franchise model.
- Attractive to advisers seeking the backing of a national brand and a regular lead source from our Mortgage Choice broker network.
- Remuneration model is currently under review to ensure it is competitive in a changing landscape.
- Planned investment in FY19 for a new IT platform to reduce the cost to serve for Mortgage Choice advisers and improve the customer experience.

Building the platform for growth and long term sustainability

Priorities for FY19

In July 2018, the Company announced it had commenced a company wide change program to provide a platform for growth and long term sustainability. The first priority was the roll out of the new broker remuneration model. The business will focus on the following initiatives in FY19.

Remuneration models
- Embed the new broker remuneration model. More than 90% franchisees have already opted in. It is expected that all will opt in by end of this financial year
- Full service hybrid model under strong National brand – Top rate of 90%
- Review of adviser remuneration underway (provision included in FY19 guidance)

Brand and customer experience
- Shift focus on marketing spend from pure lead generation to brand awareness and engagement to ensure long term brand health
- Improve the online customer experience to create advocacy

Operational efficiencies
- Departmental review of processes to increase efficiency whilst improving the support experience for brokers and advisers
- Online Help Centre to enable franchisees to self serve more effectively
- Roll out of a new Broker Platform, which enhances the broker experience through integration of systems
- New core systems for financial planning

Recruitment
- Position Mortgage Choice as an aggregator of choice for potential franchisees and loan writers. New broker remuneration model and best-of-breed loan origination platforms
- Recruit stand alone financial planning franchise owners

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