



# HOMELOANS LTD

2018 FULL-YEAR FINANCIAL RESULTS  
INVESTOR PRESENTATION

23 AUGUST 2018 (C:I RATIO UPDATED 24 AUGUST 2018)



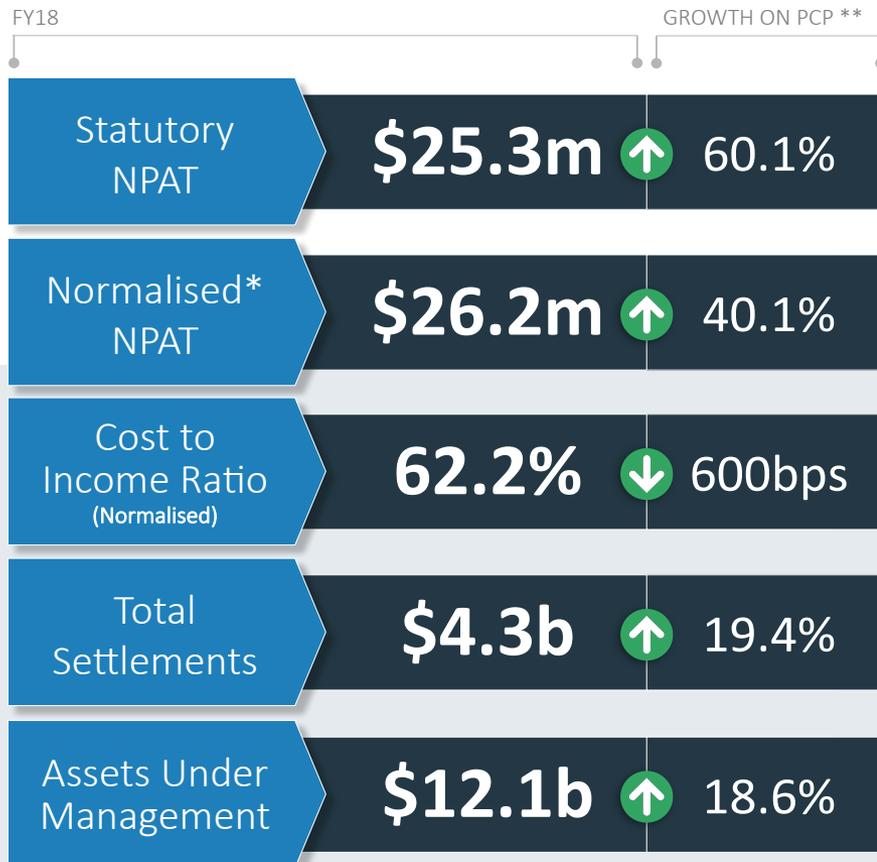
# PERFORMANCE HIGHLIGHTS

JOINT CHIEF EXECUTIVE OFFICERS

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# PERFORMANCE HIGHLIGHTS

A strong FY18 result of \$26.2m normalised NPAT (\$25.3m statutory NPAT) underpinned by above system growth, our market leading funding program and strong cost discipline.



- Net interest income up 24.4% to \$102.6m
- Principally funded loan book of \$8.6 billion at 30 June 2018 (up 30.3% vs 30 June 2017)
- Final Dividend of 0.9 cents per share fully franked

\* Excluding one-off items. See slide 11.

\*\* FY17 comparatives reflect RESIMAC only for the period 1 July 2016 to 12 October 2016 and the Homeloans group for the period 13 October 2016 to 30 June 2017.

# FY18 FINANCIAL RESULTS AT A GLANCE

The FY18 results are shown below on a statutory and normalised basis, with a reconciliation of FY18 statutory and underlying profit included on slide 11.

FINANCIAL PERFORMANCE	FY18	FY17	PCP% CHANGE	
NPAT (Statutory)	\$25.3m	\$15.8m	60.1%	
NPAT (Normalised)	\$26.2m	\$18.7m	40.1%	
Cost to income ratio (normalised)	62.2%	68.2%	600bps	
ROE (normalised NPAT basis)*	17.2%	13.2%	400bps	
SETTLEMENTS	FY18	FY17	PCP% CHANGE	
Settlements: Principally funded	\$3.6b	\$2.6b	38.5%	
Settlements: Non-Principally funded	\$0.7b	\$1.0b	(30.0%)	
Settlements Total	\$4.3b	\$3.6b	19.4%	
ASSETS UNDER MANAGEMENT ("AUM")	30 JUN 2018	30 JUN 2017	PCP% CHANGE	
AUM: Principally funded	\$8.6b	\$6.6b	30.3%	
AUM: Non-Principally funded	\$3.5b	\$3.6b	(2.8%)	
AUM: Total	\$12.1b	\$10.2b	18.6%	

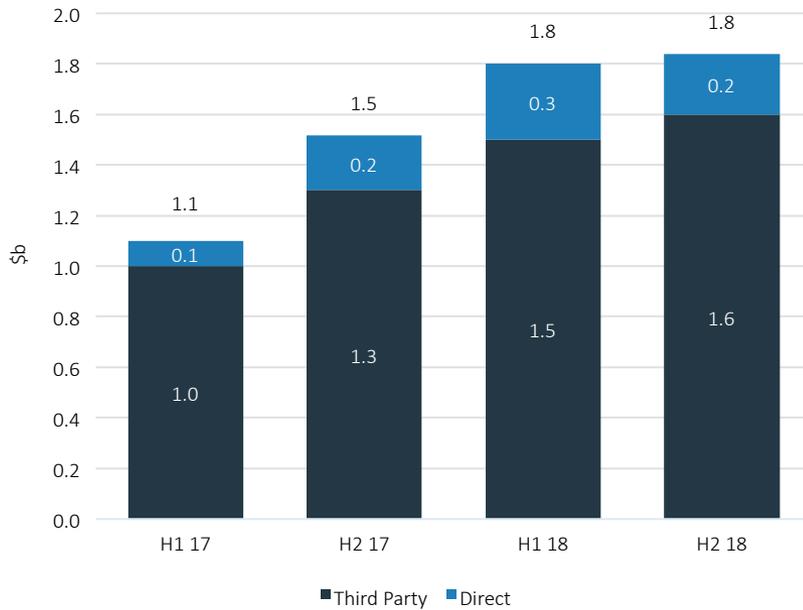
\* FY17 ROE calculated on year-end shareholders equity at 30 June 2017. FY18 ROE based on average shareholders equity.

# PERFORMANCE HIGHLIGHTS

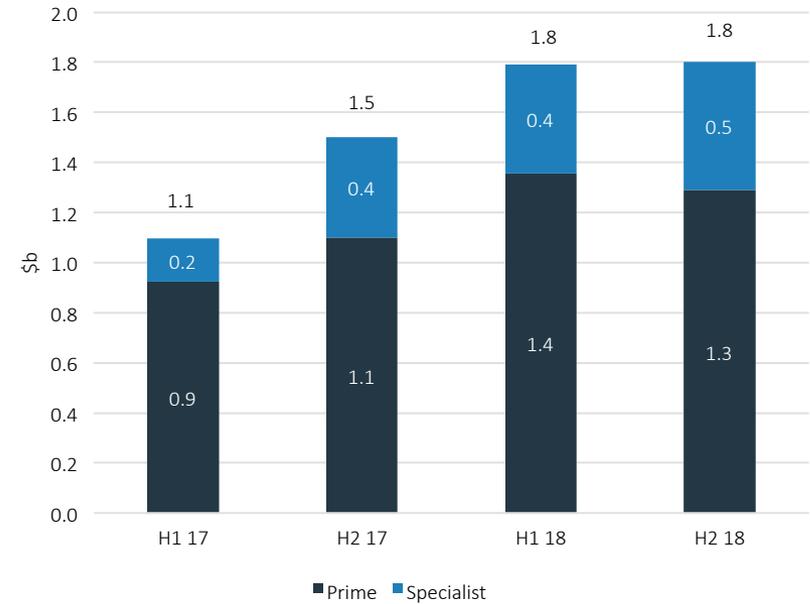
## Principally Funded Portfolio Growth

The Group settled \$3.6 billion of loans in FY18. Strong settlements growth is the result of an increase across 3<sup>rd</sup> party broker and direct channels.

### HOMELOANS ORIGINATIONS BY CHANNEL



### HOMELOANS ORIGINATIONS PRIME / SPECIALIST

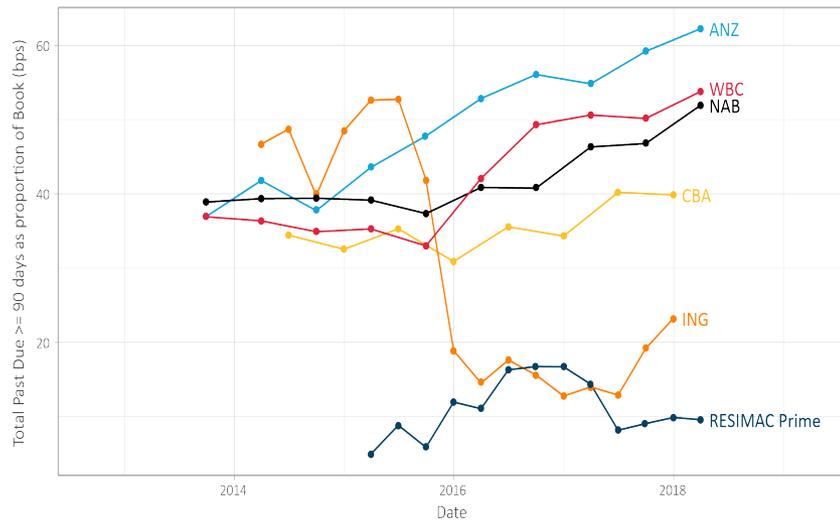


# PERFORMANCE HIGHLIGHTS

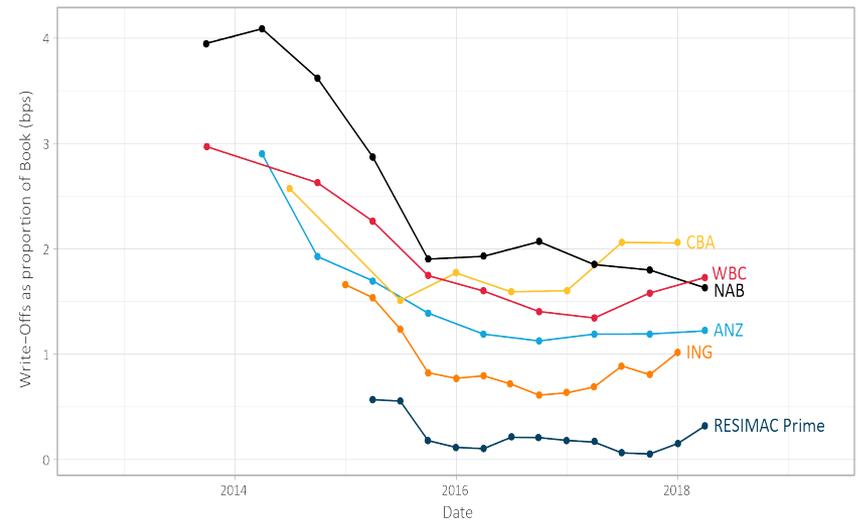
## Portfolio Performance

- Arrears remain low consistent with the outstanding credit quality of the portfolio
- Our Prime portfolio continues to outperform SPIN<sup>1</sup>, and Specialist portfolio to outperform the DINKUM<sup>2</sup> by measure of defaults and losses

RESIDENTIAL MORTGAGES PILLAR 3 TOTAL PAST DUE  $\geq$  90 DAYS BPS



RESIDENTIAL MORTGAGES PILLAR 3 TOTAL WRITE-OFF BPS



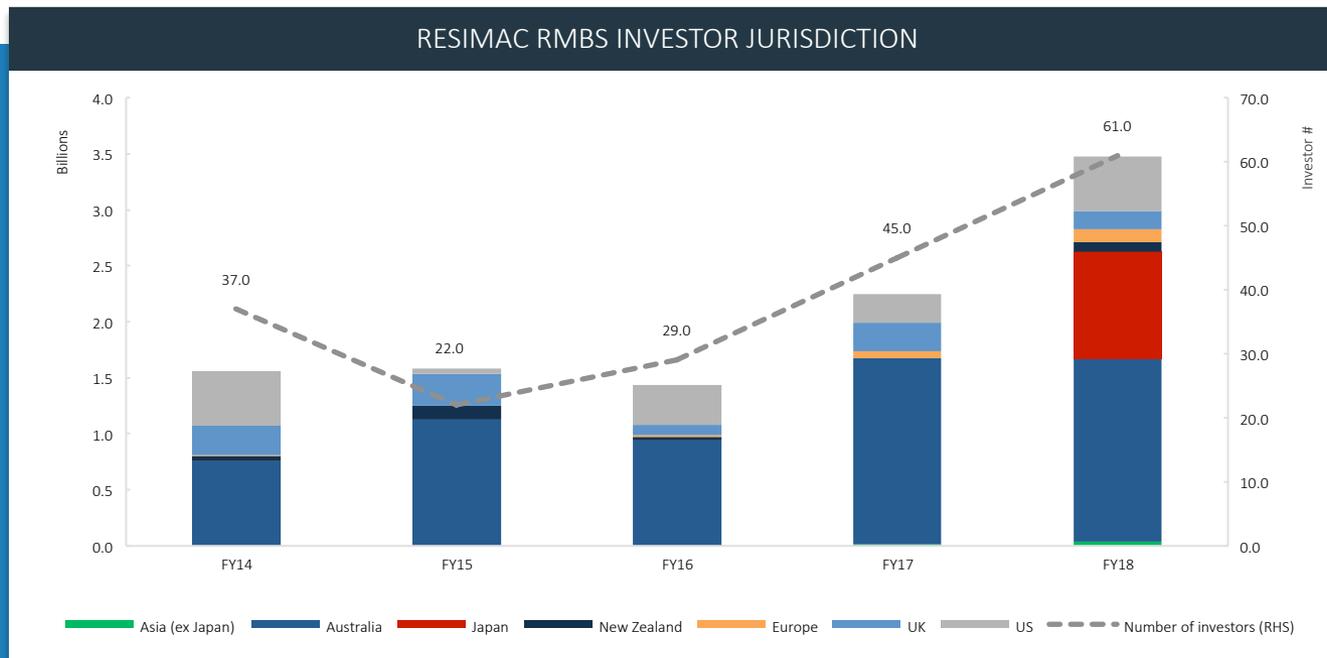
<sup>1</sup> S&P Prime Delinquency Index

<sup>2</sup> Fitch Non-Conforming Delinquency Index

# PERFORMANCE HIGHLIGHTS

## Funding Programme

- \$3.5 billion in term-duration funding during FY18 from five RMBS transactions issued in AUD, NZD and USD (144a) format
- Diversification objectives successfully implemented including a \$1 billion private placement of RMBS with a new offshore investor, and increased participation of Asia-Pacific and US investors
- Additional short-term funding line established with an offshore bank
- Significant volume committed revolving lines established with mezzanine financiers / investors



# OPERATIONAL EFFICIENCIES

FY18

GROWTH ON PCP \*\*

Cost to  
Income Ratio  
(Normalised)

62.2% ↓ 600bps

01

## PROPERTY CONSOLIDATION

Refit of Sydney office to allow for consolidation of functions and expansion.

Ongoing review of appropriate property footprint.

02

## PROCESS EFFICIENCIES

Removal of duplicated processes and move to a reduced paper environment. Continue to focus on process efficiencies.

03

## PHILIPPINES

Continue to consolidate our front and back office operations and where practicable offshore process to gain scale and efficiencies.



# FINANCIAL RESULTS

CHIEF FINANCIAL OFFICER

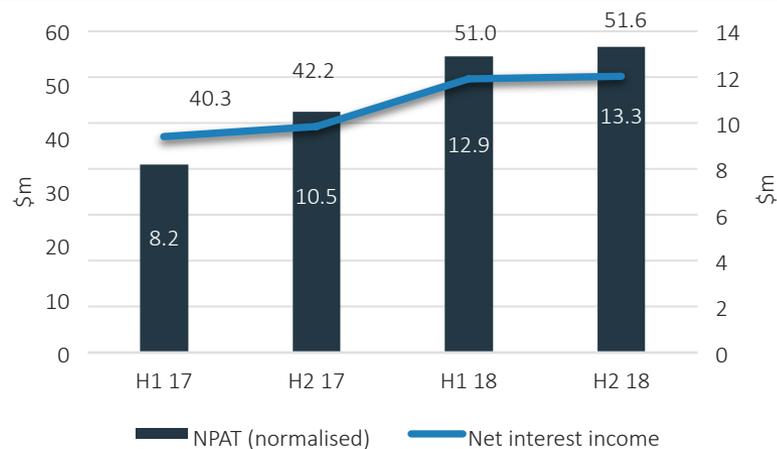
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# SOLID EARNINGS GROWTH

Continued earnings momentum, lower Cost to Income Ratio, and ROE improving 400bps compared to FY17.

\$m	FY17	1H18	2H18	FY18
NPAT (Normalised)*	18.7	12.9	13.3	26.2
Net Interest Income (NII)	82.5	51.0	51.6	102.6
Other Income (normalised)	4.4	(1.4)	(0.8)	(2.2)
Operating Expenses (normalised)	59.3	31.0	31.4	62.4
Cost to Income Ratio (normalised)	68.2%	62.5%	61.8%	62.2%
Return on Equity (normalised NPAT basis)**	13.2%	17.6%	16.9%	17.2%

## REVENUE & EARNINGS BY HALF



- Earnings momentum continues with 2H18 NPAT increasing 3% vs. 1H18, and FY18 NPAT increasing 40%\* vs. FY17
- NII increased 24% v FY17 driven by AUM growth despite BBSW spread headwinds in 2H18
- Cost to income ratio decreased 600bps YoY driven by NII growth and an ongoing focus on operational efficiency

\* FY17 comparatives reflect RESIMAC only for the period 1 July 2016 to 12 October 2016 and the Homeloans group for the period 13 October 2016 to 30 June 2017.

\*\* FY17 ROE calculated on year-end shareholders equity at 30 June 2017. FY18 ROE based on average shareholders equity.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Financial Year Ended 30 June

	2018 \$m	2017 (a) \$m
Interest income	358.4	278.8
Interest expense	(255.8)	(196.3)
<b>Net interest income</b>	<b>102.6</b>	<b>82.5</b>
Fee and commission income	35.9	32.1
Fee and commission expense	(40.5)	(31.1)
Other income	2.0	4.4
Employee benefits expense	(37.5)	(36.7)
Operating expenses	(24.9)	(26.9)
Loan impairment expense	(1.7)	(1.3)
<b>Profit before tax</b>	<b>35.9</b>	<b>23.0</b>
Income tax expense	(10.6)	(7.2)
<b>PROFIT FOR THE YEAR</b>	<b>25.3</b>	<b>15.8</b>

RECONCILIATION OF NORMALISED EARNINGS WITH STATUTORY PROFIT	FY18 \$m
<b>Normalised NPAT</b>	<b>26.2</b>
Write-off of eChoice investment	(0.9)
<b>Statutory NPAT</b>	<b>25.3</b>

(a) FY17 comparatives reflect RESIMAC only for the period 1 July 2016 to 12 October 2016 and the Homeloans group for the period 13 October 2016 to 30 June 2017.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June

	2018 \$m	2017 \$m
<b>Assets</b>		
Cash and bank balances	198.9	187.1
Trade and other receivables	6.7	7.7
Loans and advances to customers	8,633.3	6,643.0
Other assets	64.4	67.4
Derivative financial asset	43.6	7.3
Intangible assets	22.1	22.3
<b>TOTAL ASSETS</b>	<b>8,969.0</b>	<b>6,934.8</b>
<b>Liabilities</b>		
Trade and other payables	43.9	38.3
Interest-bearing liabilities	8,716.9	6,708.8
Other financial liabilities	27.8	28.3
Derivative financial liabilities	0.5	4.4
Other liabilities	12.8	8.6
Provisions	4.4	5.2
<b>TOTAL LIABILITIES</b>	<b>8,806.3</b>	<b>6,793.6</b>
<b>Net Assets</b>	<b>162.7</b>	<b>141.2</b>
<b>Equity</b>		
Share capital	177.3	174.7
Reverse acquisition reserve	(61.5)	(61.5)
<b>Total issued capital</b>	<b>115.8</b>	<b>113.2</b>
General reserves	(3.0)	(3.1)
Retained earnings	49.9	31.1
<b>Equity attributable to owners of the parent</b>	<b>162.7</b>	<b>141.2</b>
<b>TOTAL EQUITY</b>	<b>162.7</b>	<b>141.2</b>

\$m	FY18	FY17
<b>Cash reconciliation</b>		
Cash and bank and on hand	15.2	18.5
Cash collections account	182.0	166.2
Restricted cash	1.7	2.4
<b>Cash at bank</b>	<b>198.9</b>	<b>187.1</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 30 June

	2018 \$m	2017 (a) \$m
<b>Cash flows from operating activities</b>		
Interest received	373.6	293.0
Interest paid	(242.0)	(189.0)
Receipts from loan fees and other income	64.9	245.0
Payments to suppliers and employees	(143.0)	(117.9)
Payments of net loans to borrowers	(1,992.9)	(1,230.1)
Income tax paid	(5.2)	(7.5)
<b>Net cash used in operating activities</b>	<b>(1,944.6)</b>	<b>(1,206.5)</b>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(2.1)	(0.4)
Repayment of loans from / (to) related parties	9.0	11.8
Cash acquired on acquisition of business	-	10.3
Proceeds from sale of share in joint ventures	-	2.3
<b>Net cash provided by / (used in) investment activities</b>	<b>6.9</b>	<b>24.0</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	15,722.2	20,017.0
Repayment of borrowings	(13,766.7)	(18,803.2)
Swap payments	(1.2)	(1.1)
Payment of dividends	(4.0)	(5.2)
<b>Net cash generated by financing activities</b>	<b>1,950.3</b>	<b>1,207.5</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>12.6</b>	<b>425.0</b>
Cash and cash equivalents at the beginning of the period (1 July)	187.1	161.5
Effects of exchange rate changes on cash balances held in foreign currencies	(0.8)	0.6
<b>Cash and cash equivalents at the end of the period</b>	<b>198.9</b>	<b>187.1</b>

(a) FY17 comparatives reflect RESIMAC only for the period 1 July 2016 to 12 October 2016 and the Homeloans group for the period 13 October 2016 to 30 June 2017.



# OUTLOOK + PRIORITIES

JOINT CHIEF EXECUTIVE OFFICERS

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# OUTLOOK

## Regulatory Environment Impacts

**01**

Widespread market changes spurred on by Regulation, Royal Commission and Productivity Commission

### MITIGATION

Maintaining our effective governance regime and compliance with the following:

- NCCP; ACL; AFSL; AML
- RBA Reporting
- Offshore: (CRB, Dodd Frank)
- Ratings Agencies
- Banks and Investors

**02**

Mainstream lenders exercising more conservative lending policies and offering reduced product flexibility, more closely aligned with the 'Prime' borrower segment

### OPPORTUNITY

Developing and executing our Specialist Lending strategy to target an increasing segment

**03**

Mortgage broker proposition becoming more relevant assisting consumers to navigate options in the changing environment

### OPPORTUNITY

Ongoing support of the 3rd Party channel with increased focus on the borrower requirements

**04**

Potential changes to broker remuneration models may impact the service propositions available to borrowers

### MITIGATION

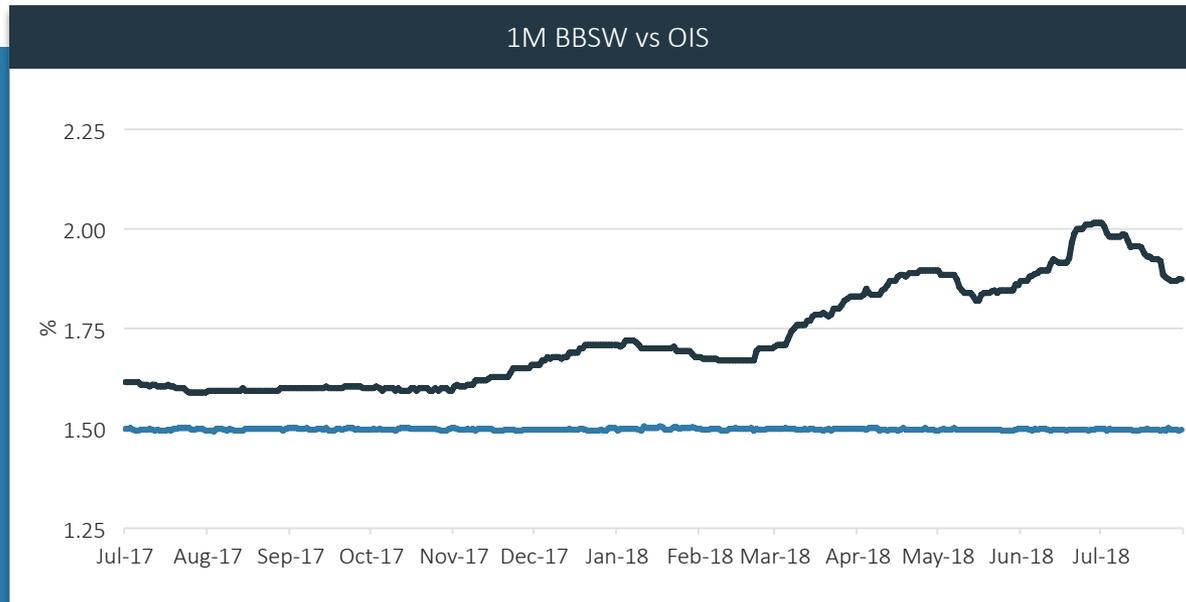
Continue to evolve our multi-channel distribution strategy aligning with our preferred customer segments

# OUTLOOK

## BBSW Movements

As with a number of our industry peers, we have been impacted by the dislocation of the BBSW against the overnight indexed swap (OIS) rates. As we have a largely floating rate book (98%), we have passed on the additional funding costs in our front and back book to the extent we could within market pressures.

Our focus remains on portfolio management to manage both the impact of the BBSW movements, and retention of our customer base.



Source: Bloomberg

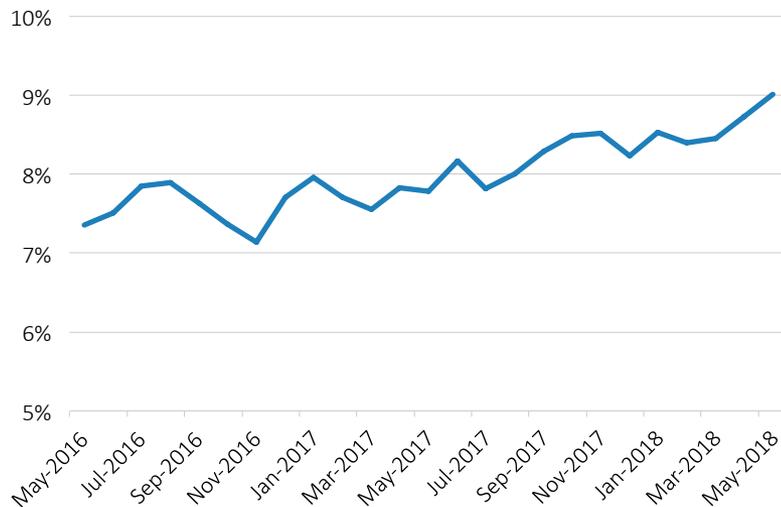
# OUTLOOK

## Market Growth Considerations

The non-bank market share continues to remain strong with significant growth in the broker channel, supporting our strategy to develop this channel, amongst others, to target the non-bank customer segment.

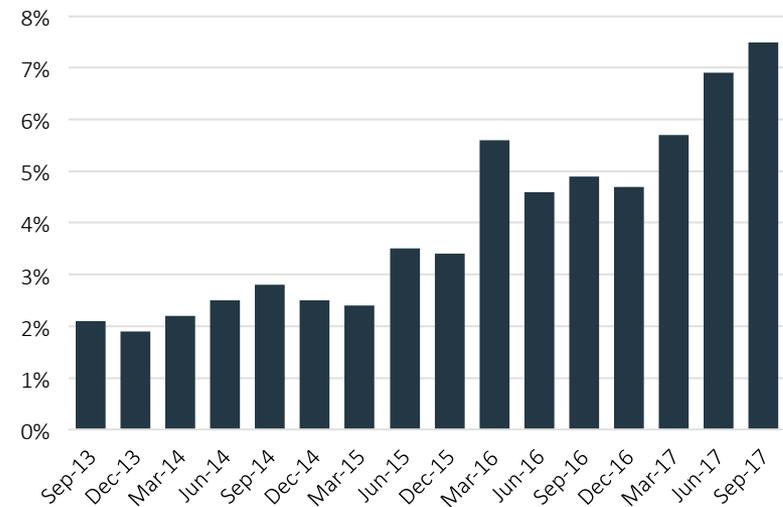
Risks associated with the cooling residential property market are being monitored through our robust credit and risk framework.

NON-BANK MARKET SHARE OWNER OCCUPIED



Source: ABS

BROKER CHANNEL NON-BANK MARKET SHARE



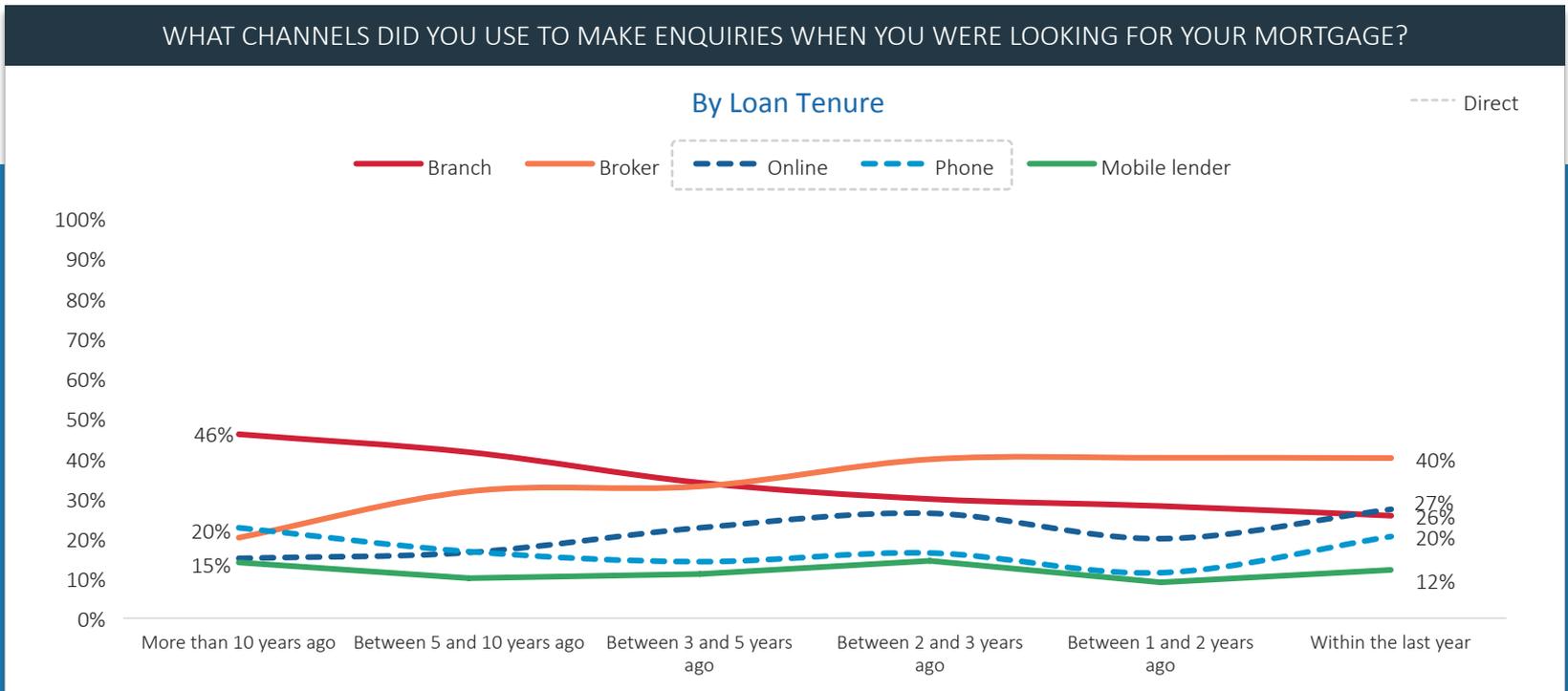
Source: MFAA

# OUTLOOK

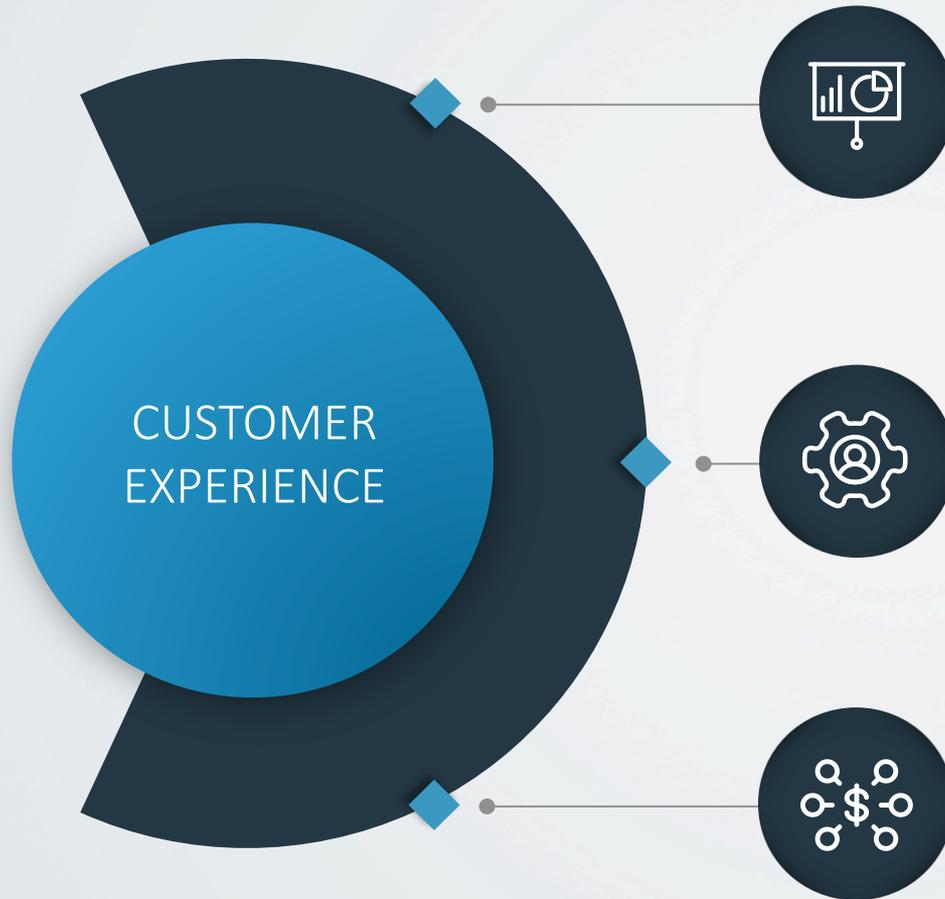
## Channel Usage Preferences: Lender View

Customer preference for online and phone continues to increase. Brokers remain a popular option for borrowers, however an omni-channel approach allowing seamless movement between channels is now an expectation, with customers often opting to use multiple channels during their enquiries.

Our distribution strategy supports the preferred channels for the majority of mortgage customers.



# STRATEGIC PRIORITIES



## Market Share Growth

- Focus on **Specialist** segment penetration
- **Inorganic growth** opportunities targeting strategic acquisitions that match funding and risk parameters
- **Multi-channel distribution** to facilitate borrower channel of choice: 3rd Party, White Label and Direct
- Existing customer retention and management

## Digital and Process Innovation for Scale

- Functional realignment to maximise efficiency
- Offshoring appropriate activities
- Workflow automation
- Digital capability enhancement

## Expand Funding Platform

- Expanding global investor base incl. strong Asian focus
- New warehouse providers (non-APRA regulated)
- Diversification

# CONTACT US



**Scott McWilliam**  
Joint Chief Executive Officer

[scott.mcwilliam@homeloans.com.au](mailto:scott.mcwilliam@homeloans.com.au)

Scott has been with Homeloans since 2004 and has held various senior executive roles including Chief Operating Officer and Head of Funding and Investments. Prior to joining Homeloans, Scott held senior roles at Deutsche Bank in London and Sydney and Citibank in London, in the area of Debt Capital Markets. Scott has worked in Financial Services since 1996.



**Mary Ploughman**  
Joint Chief Executive Officer

[mary.ploughman@homeloans.com.au](mailto:mary.ploughman@homeloans.com.au)

Mary commenced with RESIMAC in November 2002 where she assumed overall responsibility for funding the RESIMAC business which also entails managing some of RESIMAC's key relationships with its bank funders, investors, the government and rating agencies. Prior to joining RESIMAC, Mary worked at Pricewaterhouse Coopers, and 11 years at Macquarie Bank.



**Jason Azzopardi**  
Chief Financial Officer

[jason.azzopardi@homeloans.com.au](mailto:jason.azzopardi@homeloans.com.au)

Jason commenced with the Group in July 2018 as Chief Financial Officer. Jason is a Fellow of CPA Australia with an Australian tax public practice background, prior to holding senior roles within private equity in the UK. Since returning to Australia in 2011, Jason's extensive Australian retail banking experience include senior finance roles at Bankwest and Macquarie's Banking and Financial Services Division.

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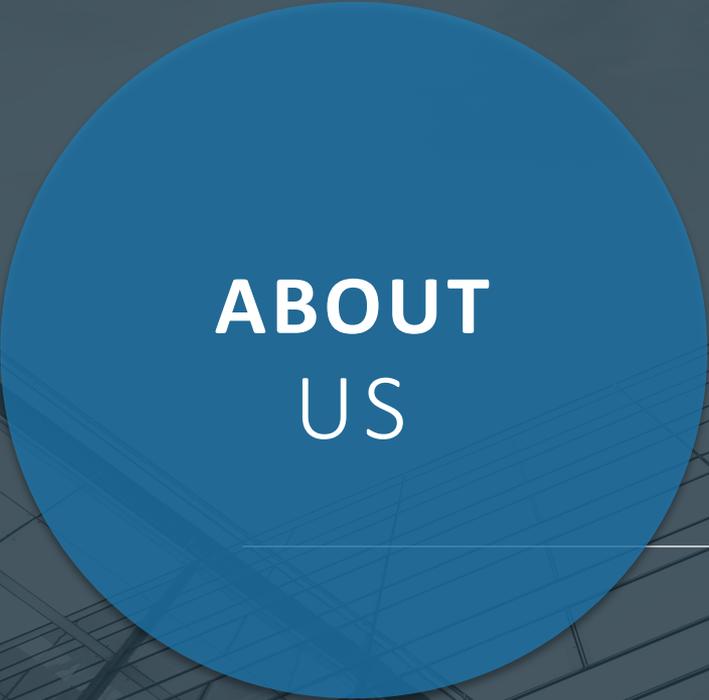
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**ABOUT  
US**

# ABOUT US

CUSTOMERS  
**50,000+**



SETTLEMENTS



over  
**\$4.3b** p.a.

PEOPLE



**250+**

Australia, New Zealand & Philippines

TARGET FUNDING STRUCTURE  
(Principally Funded)



**2/3** in term capital markets  
(domestic & international)

**1/3** in revolving warehouse facilities



PORTFOLIO  
**\$12.1b** AUM  
(**\$8.6b** principally funded)



SHAREHOLDERS  
Market cap approx.

**\$263m\***



DISTRIBUTION

- Direct to consumer online
- Access to **85%+** of mortgage brokers

\*Market cap based on 21<sup>st</sup> August 2018 closing share price.

# BUSINESS KEY ACTIVITIES

## ORIGINATION

### 3RD PARTY BROKER

- 85%+ of mortgage broker market

### DIRECT

- State Custodians: online lender

### WHOLESALE

- Mortgage Managers



## SERVICING

### UNDERWRITING

- Loan applications
- Loan credit assessing
- Loan packaging

### LOAN MANAGEMENT

- Loan processing
- Customer service
- Variations
- Settlements

### ARREARS MANAGEMENT

- Collections
- Complaints
- Hardship
- Recoveries



## FUNDING

### WAREHOUSE

- Short-term funding (364 days)
- Funding provided by banks

### RESIDENTIAL MORTGAGE BACKED SECURITIES

- Medium-term funding (3 - 5 yrs) – matched to mortgage profile
- Securitisation – grouping together of contractual, secured debt obligations (home loans) and repackaging as tradeable RMBS debt securities

