MORTGAGE CHOICE AGM 2019
CHAIRMAN'S ADDRESS

I am pleased to report in FY2019 we delivered a cash NPAT of $14.0m, which was in line with guidance provided in December 2018 and a full year dividend of 6 cents per share. Susan Mitchell will take you through our Company's performance in more detail shortly

The past year was a challenging one for Mortgage Choice and the mortgage broking and financial planning sectors, dominated by scrutiny of the financial services sector by government, regulators and the media. This scrutiny created an uncertain lending environment for borrowers. Despite these challenges, broking remains the leading channel for home loans in Australia. Our sector drives competition and simplifies the complexity of the home loan application process for our customers. We at Mortgage Choice remain committed to our vision to be a leading provider of financial choices and advice, delivering value for our customers and profitability for our franchisees and shareholders. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlighted the importance of meeting our regulatory requirements and community expectations in the way we provide our broking and financial planning services. Directors, management and staff are expected to adhere to our Code of Conduct, which has been in place for many years and sets out our expectations of the behavioral standards which support our vision and values. Similarly, our brokers and financial planners, being authorised representatives under our respective credit and financial services licences, must comply with the prescribed regulatory requirements on an ongoing basis.

Against the backdrop of regulatory uncertainty, Mortgage Choice focused on strategic activities which have reinforced the foundations of this business and will provide a platform for sustainable growth into the future. As announced last year, we made significant changes to our broker and financial planning remuneration structures. These changes were designed to ensure the ongoing competitiveness of our business and to enable our franchisees to invest in their business and grow. Additionally, we invested in new software platforms which have provided significant improvements in customer, broker and adviser experience and efficiency.

Delivering change in a challenging time calls for strong two-way communication between a franchisor and franchisee. Our annual Franchisee Engagement survey serves to keep the Board and management in touch with network sentiment and their perspective on how and what Mortgage Choice as a franchisor is delivering. I am pleased to say this year's survey revealed an uplift in franchisee engagement, raising our result to be in line with industry franchising benchmark standards. This result gives the Board confidence that the changes made have been effective and will empower the network to grow their businesses. The same philosophy and approach is taken when it comes to our customers to ensure a high level of customer satisfaction is maintained. Mortgage Choice actively seeks feedback from our customers which allows us to gain valuable insight into the process and service provided by our network. We will continue these practices into the future.

Since my appointment as Chairman, Board renewal has been a focus and I take this opportunity to thank Stephen Jermyn, who retired from the Board earlier this year after 15 years as Director. Steve was an excellent Director and during his tenure made a significant contribution to Mortgage Choice.

The Board has been strengthened by the addition of Dharma Chandran earlier this year. Dharma brings a deep understanding of the financial services industry and franchising as well as a track record in transformational business and cultural change.

Our strategic intent for FY20 is to build a platform for growth to ensure our Company's long term sustainability and to deliver upon our key focus areas, which are to:

- Attract brokers and advisers through the regeneration of our broker network and growing scale in our financial planning network
- Attract customers through leverage of our national brand
- Structure the business for success with a continued focus on reducing costs while maintaining service support to our franchisees
- Maintain our investment in IT with a focus on back office automation and an improved digital customer experience

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

In closing, franchising remains a relationship business. The relationship a Mortgage Choice franchise owner nurtures with their customers extend beyond the transaction and can transcend generations. Our franchisees are and shall remain more than a local financial expert. They are passionate contributors to their local schools, charities, sporting groups and more. They are advocates for their fellow local small businesses building strong and enduring referral partnerships. Our franchise owners and their teams give back with their time and effort to causes that they care about. I am proud of the role our franchisees play in their local communities, how they bring our national brand to life and exemplify our business values.

I am honoured to be your Chairman and I take this opportunity to thank our customers, our franchisees, our staff and you, our shareholders for your continuing support.

MORTGAGE CHOICE AGM 2019
CEO'S ADDRESS

Thank you Chairman.

Good morning ladies and gentlemen, my name is Susan Mitchell and I am the CEO of Mortgage Choice Limited and it's my pleasure to speak with you this morning at our AGM.

As many of you know, this is my eleventh AGM with Mortgage Choice and my second as CEO. I'd like to take this opportunity to thank the Board, and you our shareholders, for your continued support.

I will briefly touch on the highlights of the FY19 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.

FY19 Performance Highlights

Our FY19 cash Net Profit After Tax result was $14.0 million, in line with the lower end of guidance we provided to the market in December 2018. The statutory NPAT was $13.7 million for the year. Settlements for FY19 were $9.4billion, which was down 18% on last year, and our loan book reached $54.3 billion at the close of the financial year.

In July 2018, Mortgage Choice initiated the biggest change program in its history. The focus for this change program was to ensure we can compete and grow sustainably into the future.

The first step in this change program was to introduce a new remuneration model to our broker network, which was adopted on 1 August 2018. This made our first priority of FY19 to embed this new model and ensure its success. The new model was designed to reduce the volatility of brokers' earnings and to increase the quantum paid to brokers, which would allow them to invest in their businesses.

Our financial results for FY19 reflect 11 months of the new broker model.

Turning now to our financial planning business, funds under advice were up 30% to just over $950m and our Premiums in Force also up 7% to just under $30m. Our final dividend for FY19 was 3 cents per share fully franked, which took the full-year dividend to 6 cents, fully franked.

Demand for Broking Services Hit Record High

During FY19 there was a significant decrease in housing approvals across the market. According to the ABS, the average home loan approvals per month for the financial year 2019 were approximately $26.8 billion, down on the previous year of $30.8bn per month. This drop of 13% has been driven by a number of key elements.

The first key element was the uncertainty surrounding the Royal Commission and the implications it would have on the broking industry. The first of four Royal Commission hearings began in March 2018 and culminated in the delivery of Commissioner Hayne's final report in February of this year. This level of uncertainty made it very difficult to recruit new brokers into Mortgage Choice and also made it unlikely that any of our business owners would replace any turnover in staff.

The second key element was the tightening of credit standards due to the increased scrutiny of APRA on lenders in parallel with the Royal Commission inquiry. This change began in FY18 and came into full force in FY19. The more intensive review of all aspects of a borrower's home loan application meant it took longer to prepare and process an application and ultimately meant that borrowers had access to a lower level of credit.

This then turned a softening property market into a falling property market. Australian dwelling values fell 6.9% through FY19. This was driven by the nation's two largest housing markets, Sydney and Melbourne, which recorded falls of 10% and 9% respectively.

This of course led to a fall in the home loan market, in which home loan approvals fell approximately 13% over the financial year. This decline became more pronounced in the second half of FY19 with a fall of 9.5% compared to the first half. The second half of the financial year saw the lowest level of home loan approvals since the second half of FY13.

The increased level of complexity demonstrated the value proposition of mortgage brokers, with a record proportion of borrowers choosing to use a broker for their home loan needs in FY19. Over that period, broker usage reached an all time high of 59.7% for the March 2019 quarter. We believe that broker usage will continue to grow.

MOC Settlements

Looking at our own business, we saw our own home loan settlements for FY19 drop in line with the market trend. Whilst it is early in the new financial year, there are increasing positive indicators that we are experiencing a shift in the home loan market. To support this, we have already seen an increase in application volumes leading to an increase in settlement activity in July and August.

Lender Mix

One of the interesting trends in FY19 was the further reduction in Mortgage Choice residential settlements with the four pillars, which fell to 39%. Market share was lost to smaller banks and niche lenders. This is the first time we have seen the market share of the four major banks fall below 40%.

If I were to include St George and BankWest along with the four majors, we would still have seen a fall in the major lenders from 57% to 52%. Lending criteria tightened at the majors, creating increased opportunities for smaller lenders to gain market share. Mortgage Choice home loans accounted for 1.6% of total settlements compared to 8% in FY18. This result is included in 'Other'. This sharp fall reflects Macquarie Bank's decision to withdraw its white label offering in late 2018.

FY20 Outlook

We believe there are a number of drivers behind this positive shift in the home loan market. At a macro level:

- The **political landscape has changed** – the election result in May 2019 significantly altered the outlook for the property market. Proposed tax changes to negative gearing and capital gains tax are now off the table and recommended changes to broker remuneration arising from the Royal Commission have been deferred for review until 2022.

- **The Reserve Bank has cut the cash rate** three times since June 2019, bringing the current cash rate to an all-time historic low of 0.75%. Lenders across the board have reduced interest rates to some of the lowest on record.
- There have also been **changes in the loan servicing floor rates** – APRA announced in July that it would allow lenders to change the minimum interest rate floor used to calculate a customer's ability to repay their loan. A majority of lenders across our panel have introduced the revised criteria.
- **Housing prices appear to be stabilising** –the September CoreLogic figures reveal that national dwelling values recorded the largest monthly gain since March 2017, driven by a 1.7% growth in dwelling values in both Sydney and Melbourne.

Looking forward, we see headwinds to economic growth due to slow employment and wage growth against a backdrop of global economic uncertainty.

With the Royal Commission now concluded and commitments from Government regarding the review of broker remuneration in 2022, the industry now turns its attention to the implementation of two key pieces of legislative change. The first being the introduction of a Best Interest Duty and the second being the removal of conflicted remuneration, both scheduled to come into effect in July, 2020. Draft legislation has been released and a consultation period conducted between Treasury and industry, in which Mortgage Choice actively participated.

The Best Interest Duty is being introduced to ensure that customer's best interests are at the forefront of brokers' minds in each transaction. Mortgage Choice has a long history of doing the right thing by its customers and will work with both industry and regulatory bodies to implement a solution that delivers the desired outcome without hindering the customer experience. The changes in the draft legislation regarding conflicted remuneration are consistent with the findings of ASIC's 2017 Review of Broker Remuneration and as such many have already been committed to and implemented by the industry through the Combined Industry Forum.

That said, we find ourselves in a time where customers are truly voting with their feet and favouring the broker channel. Customer satisfaction remains high and the complexity of the lending environment continues to increase, with more paperwork, heightened verification and longer turnarounds for home loan applications. The role of mortgage brokers has never been more important and the future is bright. Mortgage Choice is well positioned to take this advantage and support more customers with their home lending needs.

Opportunities in Financial Planning

Turning to our financial planning division, there has been immense disruption across the industry following the Royal Commission. We are seeing institutional divestment of dealer groups and restructuring of wealth divisions across the banks and AMP. This gives rise to an important opportunity for our Financial Planning business, which remains a significant element of our future strategy. Due to the nature of our planning model, many of the Royal Commission recommendations do not affect us given our post-FOFA fee for service model which is not reliant on grandfathered commissions.

In FY19 we invested heavily in the implementation of a new IT platform with industry leader XPLAN. This new technology is aimed at both reducing the cost to serve for our advisers as well as deliver a significantly enhanced customer experience. We are well progressed in the adoption of the platform with enhancements constantly being delivered to the network.

Our Financial Planning business benefits from the strength of a national brand and an active referral lead source from our broker network. It is not vertically integrated and has been enhanced with a new competitive remuneration model in place. This attractive proposition presents a wonderful opportunity for us to recruit high quality, experienced advisers from across the industry and assist more Australians with their wealth needs. This will be a core focus in FY20.

Building a Platform for Growth & Long Term Stability

Before I open for questions, I would like to talk about our priorities for FY20.

We remain committed to implementing our strategic change program. Our focus is, and must be, on attracting new brokers and advisers, attracting and retaining more customers while continuing to invest in our technology platforms and the Mortgage Choice brand.

The focus of our technology plans will be to improve efficiencies in our franchise businesses, enabling group office automation and providing an improved digital customer experience in both broking and financial planning.

We will continue to work collaboratively with the broking and financial planning industries to further promote the value of each and ensure we are involved in shaping the changes that are coming over the next year.

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, enabling our business to continue providing Australians with credit and financial advice from experts they can trust.

Mortgage Choice

FY19
Annual General Meeting

16 Oct 2019

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

CEO Address

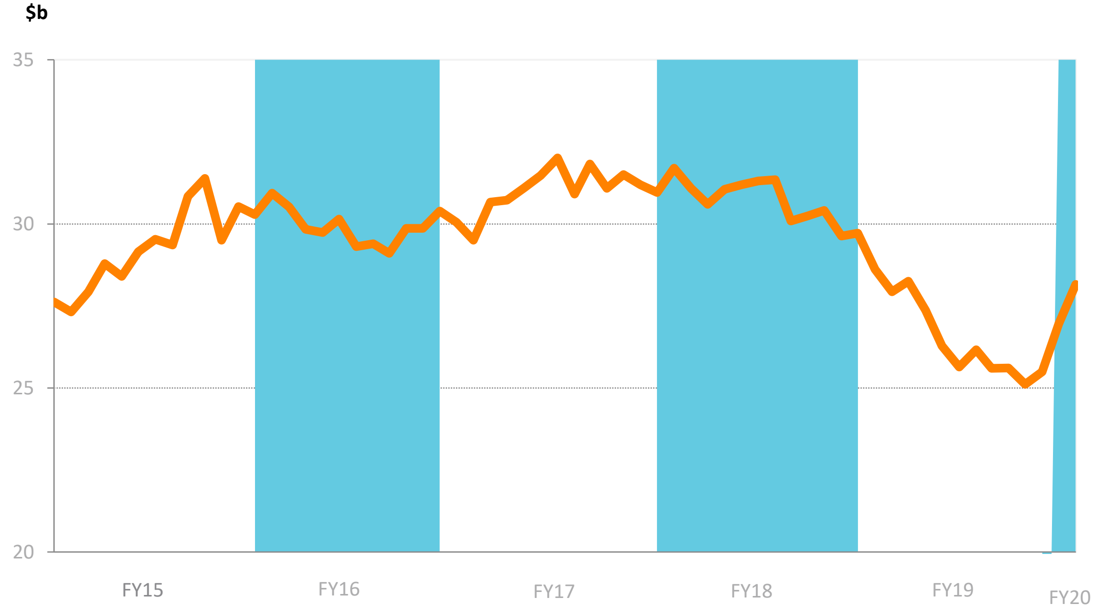
FY19 performance highlights

Mortgage Choice

		FY19	FY18	FY19 vs FY18
NPAT	– Cash	14.0m	23.4m	(40%)
	– IFRS	11.0m	25.7m	(57%)
	Adjustments to NPV for run-off and other assumptions	2.7m	7.0m	(62%)
	Adjustments to NPV due to model changes	-	(28.5m)	-
	Statutory result	13.7m	4.2m	224%
Mortgage Broking	– Loan book	54.3b	54.6b	(0.5%)
	– Settlements	9.4b	11.5b	(18%)
Financial Planning	– FUA	952.2m	733.5m	30%
	– PIF	29.7m	27.8m	7%
EPS	– Cash	11.2c	18.7c	(40%)
	– IFRS	11.0c	3.4c	224%
DPS	– Full year Ordinary	6.0c	18.0c	(67%)

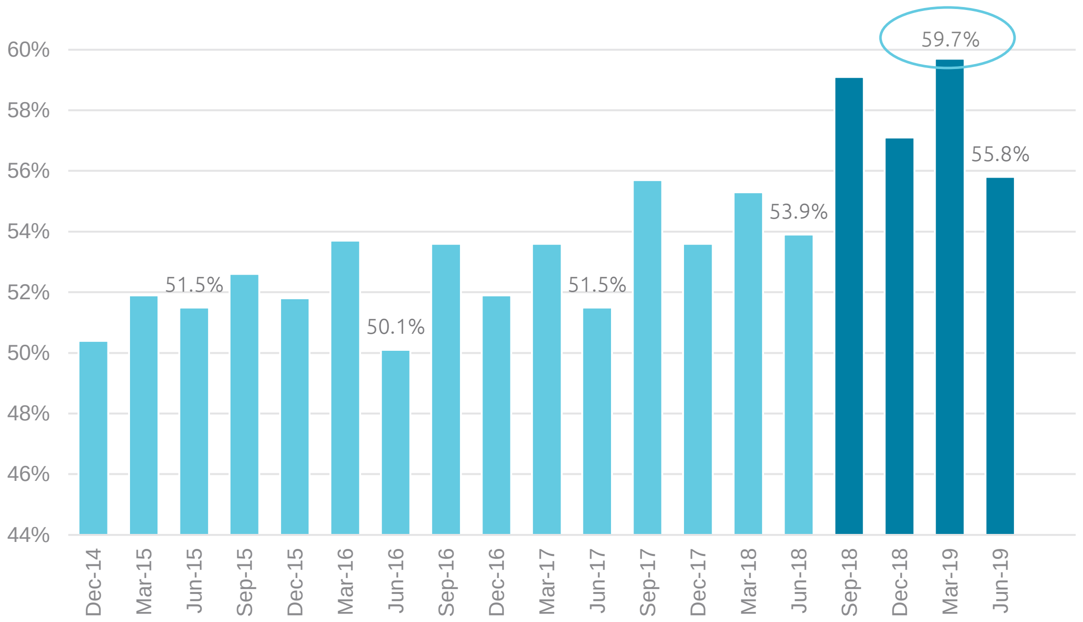
Demand for broking services hit record high

Housing Finance Approvals, ABS ($b)



Source: ABS 5601 Table 1 – Lending to households for owner occupier and investment dwellings, Aug 19 (Seasonally adjusted series)

Broker usage, MFAA (%)

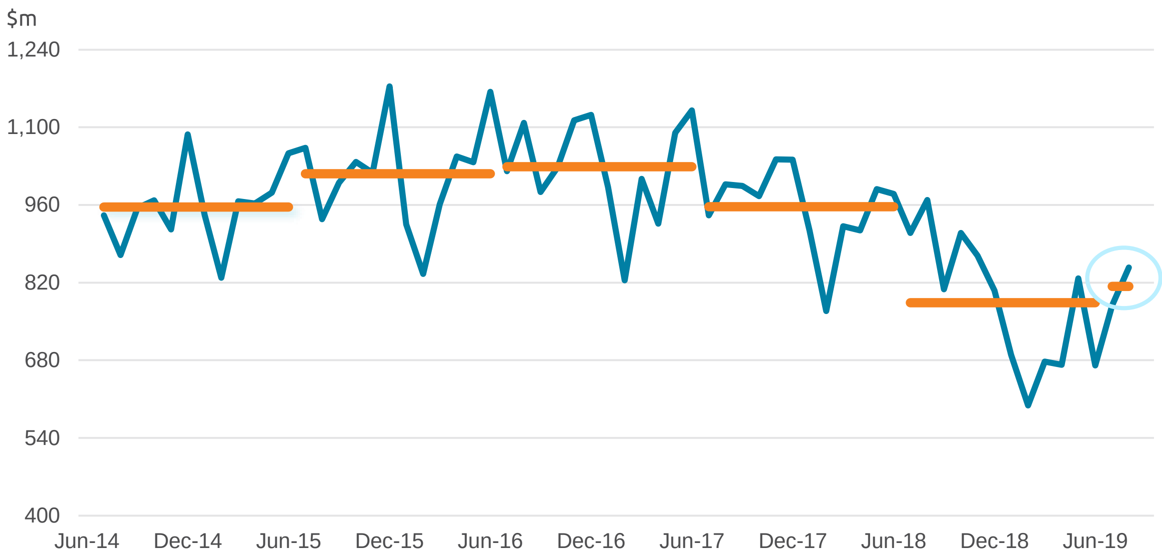


Source: MFAA's quarterly survey of leading mortgage brokers and aggregators – Jun19 report.

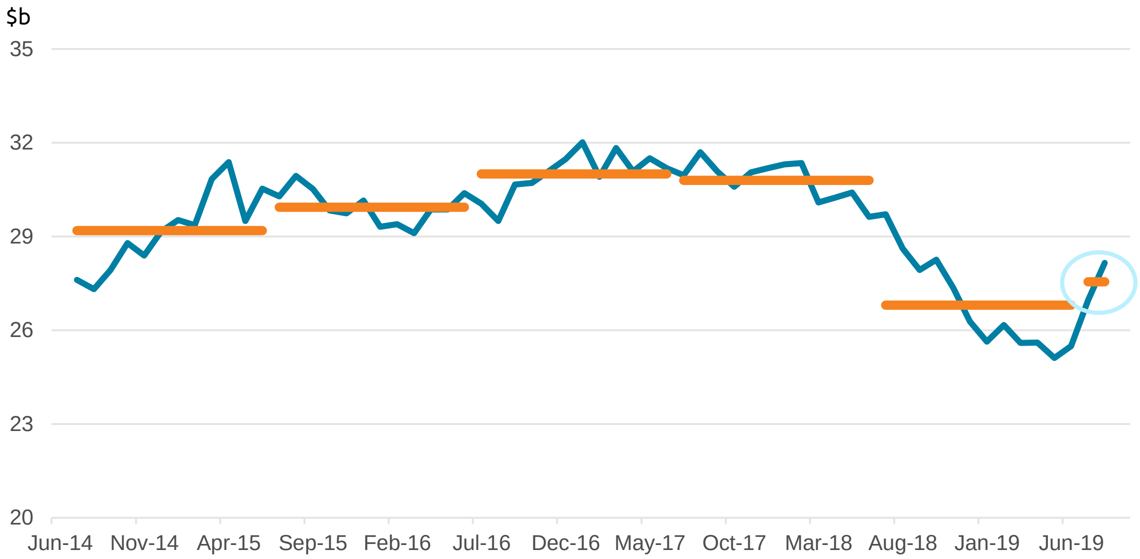
- Approvals averaged at $26.8b per month in FY19, down 13% on FY18 ($30.8b).
- Broker market share reached an all time high of 59.7% of home loans originated via a mortgage broker driven by the increasing complexity of securing a home loan.

Settlements fell in line with market

Mortgage Choice settlements trend ($m)



Housing finance approvals ($b)



Source: ABS 5601 Table 1 – Lending to households for owner occupier and investment dwellings, Aug 2019 (Seasonally adjusted series)

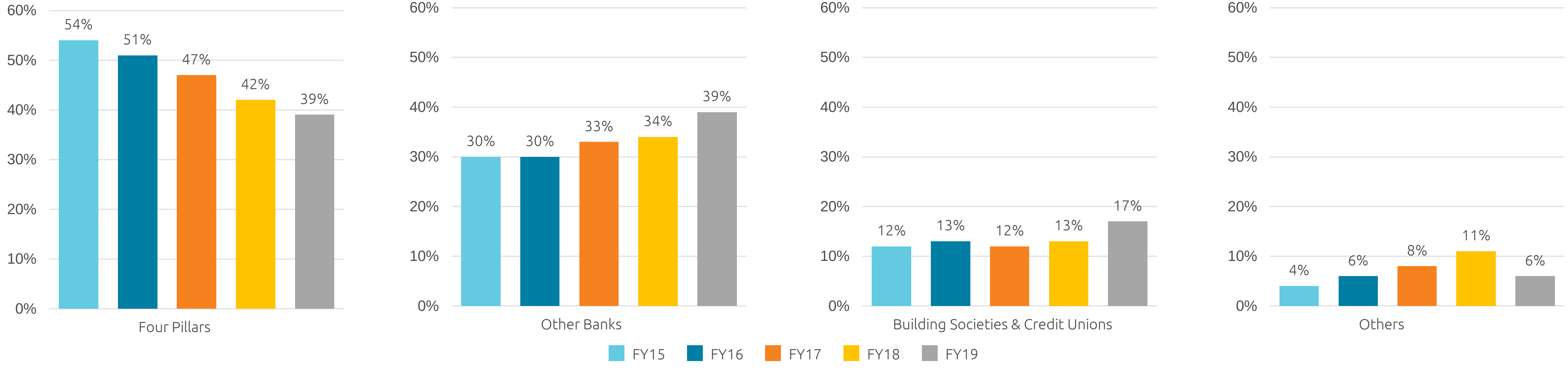
– Noticeable softening of settlement flows from October 2018 reflecting tightening of credit standards and assessment by lenders, combined with softening property markets.

– The first two months of FY20 show an increase in settlements and housing finance approvals

Settlements continue to shift from four pillars

Mortgage Choice

Mortgage Choice residential settlements by lender (%)



- Mortgage brokers continue to be at the forefront of driving competitive shift from majors to smaller banks and financial institutions.
- 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 57% to 52%.
- Mortgage Choice Home Loans accounted for 1.6% of total settlements (categorised in Others) compared to 8% in FY18, with the white label product withdrawn in the second half of FY19.

Four Pillars includes primary brands CBA, ANZ, NAB and Westpac.

Other banks includes Adelaide Bank, AMP Banking, BankWest, Citibank, Gateway Bank Limited, Heritage Bank, HSBC Bank, ING Direct, Macquarie Mortgages, St George Bank / Bank SA / Bank of Melbourne and Suncorp.

Outlook – early indications of home loan market recovery

Mortgage Choice

There is increasing evidence of a positive shift in the mortgage market:

- **Political landscape** – the election result in May 2019 significantly altered the outlook for the property market. Proposed tax changes to negative gearing and capital gains tax are now off the table and recommended changes to broker remuneration arising from the Royal Commission have been deferred for review until 2022.
- **Interest rate movement** – After a record 22 consecutive months holding the cash rate at 1.5%, the RBA announced 3 cuts in June, July and October 2019, moving the cash rate to a historical low of 0.75%. Lenders have subsequently reduced home loan interest rates to some of the lowest on record.
- **Loan servicing floor rate changes** – APRA announced in July that it would proceed with the proposed changes to its guidance on home loan serviceability assessments, allowing lenders to review and set their own minimum interest rate floor, and utilise a revised interest rate buffer of at least 2.5%. A majority of lenders across the panel have introduced the revised criteria.
- **Housing prices stabilising** – the latest CoreLogic Hedonic Home Value Index revealed that national dwelling values were down 0.2% over June. Both Sydney and Melbourne dwelling values improved month-on-month, growing 0.1% and 0.2% respectively.

However the bar to deliver good customer outcomes has been set higher:

- The **environment remains challenging** given slow employment, wage growth, and against a backdrop of global economic uncertainty.
- **Best interests duty and governance framework changes coming** – Industry discussions continue regarding the implementation of reforms recommended by the Royal Commission, ensuring customer's best interests are at the forefront of brokers' minds in each transaction. Legislation on the matter is expected in FY20.
- **Continued focus on borrower living expenses** – the scrutiny by lenders on customer's financial circumstances as part of the loan application process is not abating. This complexity in process further validates the value of a broker and the support they offer customers navigating the credit landscape.

The mortgage broking industry and Mortgage Choice are well placed to assist customers overcome these challenges. We only see broker mortgage market share increasing given the more complex lending environment.

Opportunities in financial planning

Industry in transition

- Rapid change continues in the financial advice space.
- Restructuring of wealth businesses across a number of Australia's financial institutions provides Mortgage Choice Financial Planning with the opportunity to attract quality advisers to its network in FY20.
- This is happening at a time when a new series of regulatory reforms are starting 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 offers 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 the opportunity to create a regular lead source from our Mortgage Choice broker network.
- New competitive remuneration model in place.
- New IT platform aimed at reducing the cost to serve for Mortgage Choice advisers and improve the customer experience.

Our strategic direction

As the broking industry responds to potential regulatory change post the outcome of the Royal Commission, Mortgage Choice remains well placed to capitalise on further growth in the broking market. The key to success and our strategic focus for the year ahead is centred around regenerating the broker network, growing the adviser network and continuing to invest in our IT systems and Mortgage Choice brand. We have a strong foundation to maximise the benefit of an improvement in market conditions and grow our customer base.

FY18

- New CEO appointed
- Began refresh of broker remuneration models
- Initiated new IT roadmap
- Strong investment in brand at a local level

FY19

- Implemented new broker and financial planning remuneration models
- Delivered new technology platforms for broker and financial planning networks
- Achieved operational expense savings
- Broadened panel of lender and product partners

FY20 and beyond

- **Attract brokers and advisers**, regenerate the broker network and grow scale in the financial planning network
- **Attract customers** through leverage of national brand
- **Structure the business for success** with a continued focus on reducing costs while maintaining service support to brokers and advisers
- **Maintain our investment in IT** with a focus on back office automation and an improved digital customer experience

Summary

Solid result in challenging conditions

- Cash NPAT of $14.0m delivered against the backdrop of a challenging environment of reduced settlement activity and industry uncertainty.
- Operating expense reductions offset negative external drag factors.

FY20 outlook

- Early signs of recovery of property market although this is yet to be evidenced through settlement activity.
- Our investment over the last year has strengthened our service proposition to truly support our network to thrive.
- Mortgage Choice’s remuneration models and IT platforms position the network well, ahead of a market recovery.
- Our focus is to attract new brokers, new advisers and more customers while continuing to invest in IT.

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