Homeloans
Providing Solutions

Homeloans Limited AGM 26 November 2014
Presentation / speech by Chairman Rob Scott

Ladies and gentlemen, welcome to the Homeloans AGM for the financial year 2014 - our 14th AGM as a listed entity in this our 29th year of operation.

My name is Rob Scott and I am your Chairman. Whilst it is a privilege for me to accept the position of Chairman of your company, it is with much sadness that it has arisen as a result of the sudden passing of our former Chairman Tim Holmes. As most of you will know, Tim was a founding shareholder and was Chairman of the Company since 2003. On behalf of the Board and staff of Homeloans I would like to take this opportunity to pass on our sincerest condolences to Tim's family and friends at this time. Tim was a well respected and admired businessman and friend to many. His passion and commitment to the Homeloans business, which he established with my fellow director Rob Salmon, was without question.

Let me introduce to you my Board colleagues Rob Salmon and Michael Starkey, our CEO, Scott McWilliam, our CFO, Ian Parkes and our company secretary, Jennifer Murray.

During the year Homeloans has continued to provide our customers with a real alternative to the major lenders. The results for the year ending 30 June 2014 (FY14) are testament to our strategy of providing solutions to mortgage customers across Australia whether directly through our sales teams, or through the third party broker market.

For FY14, Homeloans delivered another solid financial result, recording a statutory net profit after tax of $6.2m, down from the previous financial year result of $7.7m. Given the prior year's result included the one-off profit on the sale of an investment in National Mortgage Brokers (nMB) Pty Ltd, our underlying result of $6.3m was marginally down from $6.7m in the prior year. The result reflects the continued resilience of the Company's earnings despite intense competition in the market.

Competition in the mortgage market has seen aggressive discounting, particularly around lower loan to valuation ranges and larger loan sizes. Commission rates by lenders and mortgage managers continue to be a focus, as lenders look to grow their share of total new mortgage lending flow. Despite these challenges, we have continued to perform well, growing our total settlements by 13.8% to $1.6bn.

Pleasingly, total settlements for the six months to 30 June 2014 were 15.1% up on the previous corresponding period. During 2014, Homeloans continued to grow the 'branded' loan book, with settlements up 13.2% to $0.8bn for the year.

The growth in branded loan settlements is a direct result of the Company's investment in both broker network and sales distribution capacities, in addition to the favourable market conditions currently being experienced. We expect the impact of this investment will continue into 2015, as we further develop front line sales capacity in the key states of NSW and Victoria.

Despite stronger settlement volumes, revenue for FY14 was impacted by the ongoing run off of the Residential Mortgage Trust ("RMT") loan portfolio, as well as continued market pressures on margins.

The Company continued to improve cost efficiencies in FY14, with operating expenses reduced by 7.2%. The reduction was as a result of ongoing productivity improvements and savings in premises costs.

Homeloans branded loan book grew 2.3% to $3.0 billion as at 30 June 2014, reflecting a continued focus on providing a competitive offering, retention activities and positive market conditions. Total funds under administration, including the securitisation portfolio, were down slightly to $7.6 billion as at 30 June 2014, from $7.7 billion in the prior year. These loan books continue to generate strong cash flows and underpin Homeloans' result.

Residual cash reserves continued to be underpinned by strong operating cash flows emanating from underlying earnings. This reflects the value of the ongoing annuity stream derived from the loan books under management, as well as the value of new settlements. Both of these factors supported Homeloans' strong cash flow position at 30 June 2014.

Further, as a result of our strong cash position, the Board was pleased to declare a fully franked final dividend of 2.0 cents per share, bringing the total dividend for the year to 5 cents per share, fully franked. The Board recognises the importance to shareholders of maintaining a strong dividend.

Third party distribution remains a primary source of settlement volumes for the Group. During the year we further bolstered our Business Development Management team to ensure superior levels of service are provided to all our brokers, with a particular focus on increasing our capacity in the eastern seaboard markets. As we head into 2015, the Company is well positioned to take advantage of the buoyant property market conditions.

To further support Homeloans growing distribution and sales capabilities on the eastern seaboard, the Company recently appointed, Mr Ray Hair to the executive team as General Manager National Sales. Mr Hair is responsible for driving Homeloans' broker and retail distribution strategies and joins the Company having previously held a broad range of senior positions in the financial services sector.

Homeloans continued to further diversify the Company's funding base during FY14 through the introduction of Macquarie Bank-backed products. In addition, we have maintained strong relationships with our other wholesale funding partners and this has allowed us to continue to improve and expand our product offering. It is important we provide a full range of mortgage customer solutions and take advantage of market opportunities as they arise. Settlements of various specialised mortgage products continue to compliment the mix of standard loan settlements, which represent the majority of the Groups new lending volumes.

In the first quarter of the new financial year we have seen a continuation of the positive market conditions from the 30 June 2014 quarter. Settlement volumes have maintained positive momentum, aided by our increase in Business Development managers in Victoria and NSW. With this solid lending activity we have also seen an increase in incentives and rate discounts by the major lenders in the market. More recently this has included cash back offers on top of existing upfront cost discounts. Despite these challenges, Homeloans is well placed to grow our business and to differentiate ourselves in the market, thereby ensuring we match competitor offerings and capitalise on favourable market conditions. Given these factors, we expect the result for the first half FY15 to be broadly in line with the second half of FY14.

We have a clear strategy to grow and diversify the business and the Company remains focused on expanding, both organically and non-organically. Three key elements support this growth focus: firstly, increasing lending volumes through strategic relationships with our wholesale funders and our own propriety lending capabilities; secondly, identifying opportunities to build our distribution; and lastly, participating in emerging online channels. We believe pressure on margins will impact smaller mortgage managers and therefore anticipate further rationalisation within the industry over the next 12 months.

Homeloans remains well placed to capitalise on emerging opportunities in the market, and we will continue to pursue the expansion of both our broker and direct retail distribution footprint. This potentially includes the further enhancing of product and service offerings across Homeloans' third-party broker partners and direct retail networks, as well as pursuing the expansion of our broker and direct retail distribution footprint. We are also actively assessing growth opportunities in a range of complementary financial and property service areas, in order to diversify the revenue base and provide additional volume growth opportunities.

The objective of this growth and diversification strategy is to maintain Homeloans' profitability and broaden the revenue base in the face of ongoing competition in the mortgage market.

Enhancing brand recognition is an integral part of Homeloans' strategy to increase distribution and, as such, we have renewed our relationship with the Perth Scorchers, following a successful sponsorship during the T20 Big Bash League competition in early 2014. The sponsorship of the Scorchers increased brand recognition with our third party broker partners, as well as with retail consumers, and resulted in a material lift in traffic to the homeloans.com.au website.

In summary, we are proud of our achievements in FY14 in the face of challenging market conditions. We look forward to continuing to execute our business strategies over the coming 12 months - strategies that will support two outcomes for your Company. Firstly, to remain a home loan solutions provider that represents a very real, respected and refreshing alternative to the major banks for home finance, and, secondly our evolution as a unique ASX listed offering that provides investors with a clean exposure to the residential property finance and service sectors.

In closing, I would like to take this opportunity to thank my fellow Directors and the staff of Homeloans Limited for their ongoing commitment and efforts throughout the year.

Thank you. I will now move to the formal meeting.

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