

23 August 2012

Core business robust and diversifying for further growth

Group loan book cracks \$45bn as annual market share climbs to 4.6%

Australia's largest independently-operated mortgage broker, Mortgage Choice Limited (MOC) today announced another solid financial result for the year ended 30 June 2012.

The outcome shows the Group's ongoing commitment to building its core business and a measured approach to its diversified businesses.

Financial highlights for the 12 months to 30 June 2012

- Net profit after tax (NPAT) on a cash basis was \$15 million, a fall of 5.7% on FY11. However, Mortgage Choice's core business NPAT on a cash basis was \$16.8 million, up 0.6%.
- Total loan book, ie. loans written by brokers in its franchise network and its aggregation arm, LoanKit, reached \$45.1 billion. This was up 6.4% on \$42.4 billion at 30 June 2012.
- \$11.2 billion worth of housing loan approvals were written by the Group during the financial year, up from \$9.9 billion in FY11, while Mortgage Choice's core business loan approvals amounted to \$10.1 billion, up from \$9.5 billion in FY11.
- Annual share of new home loans rose to 4.6%, which is the highest since FY06.
- A fully franked dividend of 7 cents per share was declared by the Board, which takes the total dividends for the year to 13 cents per share, representing an industry leading yield of 10.1% (based on the 30 June 2012 close price of \$1.28).
- Total group revenue on a cash basis was \$143.9 million, up 3.6% on FY11 and the business experienced a rise of 6.1% in its cash gross profit to \$54.0 million.
- On an IFRS basis:
 - NPAT was \$18.5 million, including a positive after tax adjustment of \$4.1 million to the valuation of the trail book. This is down 32.7% on the NPAT of \$27.5 million in FY11, as a result of last year's positive after tax adjustment of \$12.3 million.
 - Earnings per share stood at 15.4 cents compared to 22.9 cents in FY11.
 - Total group revenue was \$157.0 million, down 7.3% on FY11.

Mortgage Choice CEO Michael Russell said, "The Mortgage Choice Group has delivered, as promised, a strong result in the second half of this financial year across virtually all operating metrics."

"We are once again pleased to provide our shareholders with a dividend result equal to that received in FY11 – a final fully franked dividend of 7 cents per share, taking the annual dividend to 13 cents per share."

Financial and operational performance

The company's revenue and productivity both showed an improvement year on year with the group loan book growing 6.4% to reach \$45.1 billion, home loan approvals increasing by 13.1% to \$11.2 billion, and group market share growing to 4.6% of all new home loans, its highest level in six years.

Mortgage Choice brokers achieved near-record highs in productivity, with the number of settlements per loan consultant increasing to 64 in FY12 from 59 in FY11. At the same time, it expanded its geographical spread by welcoming 20 greenfield franchisees to the network in FY12, compared to 19 in FY11.

Mr Russell said, "In a market of consumer conservatism and subdued credit growth, we are very pleased to report healthy revenue, lower operating expenses and improved broker productivity."

"The solid result shows the company's DREAM strategy, an acronym for diversification, recruitment, existing broker support, acquisitions and managing costs, has delivered the transformation we were seeking. The team has successfully moved the business in the right direction."

"The decision to reinvigorate our recruitment strategy and to place greater emphasis on broker reward and recognition has helped us grow Mortgage Choice's core business. Mortgage Choice franchise numbers have grown from 368 to 380."

"To support our expanding network, Mortgage Choice introduced a range of training initiatives designed to assist our network to capitalise on growth opportunities. The training focuses on Self Managed Super Fund lending, investment lending and cross-selling our diversified product offerings."

The Group continued to invest in our acquired businesses, comparison website HelpMeChoose.com.au and aggregator LoanKit, with improved results achieved.

"HelpMeChoose.com.au restored faith in the blue ocean opportunities it can deliver to the Group by posting a net profit after tax of \$70,000 in the final quarter of the financial year," said Mr Russell.

"In the twelve months to 30 June 2012, LoanKit broker numbers increased by 31% to 256 and settlements increased by 188%, with monthly settlements now in excess of \$110 million."

State of the housing finance market

According to the Australian Bureau of Statistics data, new housing finance commitments during the financial year were up 2.9% on FY11 (\$244.8 billion compared to \$237.9 billion).

The number of first homebuyers as a percentage of owner-occupied housing finance commitments increased to 18.1% in FY12, from 16.7% in FY11. This rise in activity had a positive effect on finance demand from other homebuyers, as many sold their properties to first timers.

Refinancers were the most active borrower group in FY12. The bout of cash rate cuts in mid FY12 and subsequent interest rate moves by many lenders encouraged a large portion of borrowers to shop around, as did increased media coverage of the benefits of switching loans, and heated competition between lenders who were offering rate discounts in a grab for market share.

"Consumers remained cautious in FY12 as they adjusted to the global unease surrounding the European debt crisis, increased lender funding costs and a new out-of-cycle interest rate environment, plus falling house prices and a penchant toward deleveraging and saving more," Mr Russell said.

FY13 is time to ACT

Over the past three years Mortgage Choice has focused on broadening its customer offering, attracting new brokers, encouraging professional development through reward and recognition and adding value for existing brokers by introducing new revenue streams.

While the above mentioned initiatives remain important to Mortgage Choice, it is now looking for additional growth opportunities to bolster core business and transition the brand into a fully fledged financial services provider.

The Group has developed a number of clear and measurable goals and, most importantly, a strategic three year plan to deliver them. The plan is known as *ACT*, an acronym for:

- **A**cquire greater market share in our core mortgage business
- **C**ross-sell our mortgage customers into our financial planning business
- **T**ransition the Group into a diversified financial services and wealth solutions business

"Heading into our third decade in business, we will be focusing on attracting more customers and driving growth. The aim is to introduce our mortgage customers to an irresistible consumer proposition offered by our new financial planning business," said Mr Russell.

"We intend to revolutionise the way customers access quality financial planning advice in the same way we did with home loans 20 years ago."

“During this transition the company’s vision is: indelibly stamp in the minds of consumers Mortgage Choice’s role as a home loan specialist that offers broader financial services to better meet the growing needs of its customers.”

“Today’s financial results announcement shows that the company can provide its shareholders and other stakeholders with a steady performance on the back of integrated business opportunities and despite subdued market conditions. Mortgage Choice has an ongoing commitment to build better businesses and will seek to leverage further growth opportunities.”

“I’m pleased to report we expect to achieve a similar cash NPAT result in FY13 and maintain our current dividend.”

Visit www.mortgagechoice.com.au.

For further information or to arrange an interview, please contact:

Belinda Williamson
Mortgage Choice Corporate Affairs
02 8907 0472 / 0407 416 124
belinda.williamson@mortgagechoice.com.au

Michelle Ryan
BlueChip Communication
02 9018 8608 / 0404 381 886
michelle@bluechipcommunication.com.au

About Mortgage Choice

Australia’s largest independently-operated mortgage broker, Mortgage Choice has sourced a home loan for well over 350,000 people since 1992. It works with all manner of property finance borrowers via hundreds of franchises.

The company writes almost in every 20 home loans in Australia by providing professional guidance on, and choice of, products offered by an extensive panel of leading lenders. Many of its brokers provide a broader service, helping customers source commercial and personal loans, asset finance, deposit bonds and risk and general insurances.

Uniquely, Mortgage Choice pays its franchisees the same commission rate for home loans they write, regardless of rate paid by the lender a new customer selects, working in the customer’s best interests to tailor a solution to them.

The company has no balance sheet or funding risk, and consistently delivers strong profits and attractive yields. It listed on the ASX in 2004 (MOC) and is a member of the Mortgage & Finance Association of Australia (MFAA).

Recent recognition: 2012, 2011 Australian Broking Awards *Major Brokerage of the Year – Franchise*; 2012 Australian Broking Awards *Best Training and Education*; 2012 Australian Broking Awards *Best Ethical/Social Responsibility Program*; No.1 on The Adviser magazine’s 2012, 2011, 2010 and 2009 *Top 25 Brokerages* list; 2012, 2010, 2009, 2008, 2006 and 2005 MFAA Awards *Retail Aggregator/Originator of the Year*; 2011, 2010, 2009 and 2008 10 Thousand FEET *Top 10 Franchise* list; 2010 Forbes Asia-Pacific *Best Under A Billion* list.

Mortgage Choice holds an Australian Credit Licence: no. 382869, issued by ASIC.

Visit www.mortgagechoice.com.au or call customer service on 13 MORTGAGE.

Mortgage Choice Limited

Annual Results Presentation
Year ended 30 June 2012

Michael Russell
Chief Executive Officer

Susan Mitchell
Chief Financial Officer

23 August 2012

Agenda: FY12 results

Performance highlights	Michael Russell
Financial performance	Susan Mitchell
Economy and industry	Michael Russell
Operations	Michael Russell
3 year strategy	Michael Russell
Appendices	

FY12 group performance highlights

	FY12	FY11	
NPAT - cash	15.0 m	15.9 m	5.7% ↓
- IFRS	18.5 m	27.5 m	32.7% ↓
Loan book	45.1 b	42.4 b	6.4% ↑
Approvals	11.2 b	9.9 b	13.1% ↑
Settlements	9.7 b	8.7 b	11.5% ↑
Basic EPS - cash (Cps)	12.5 c	13.3 c	6.0% ↓
- IFRS (Cps)	15.4 c	22.9 c	32.8% ↓
DPS - ordinary (Cps)	13.0 c	13.0 c	0% =

Approvals

Approvals trend (\$000)



✓ MOC approvals were up 13.1% on last year - ABS approvals were up only 2.9%

Settlements

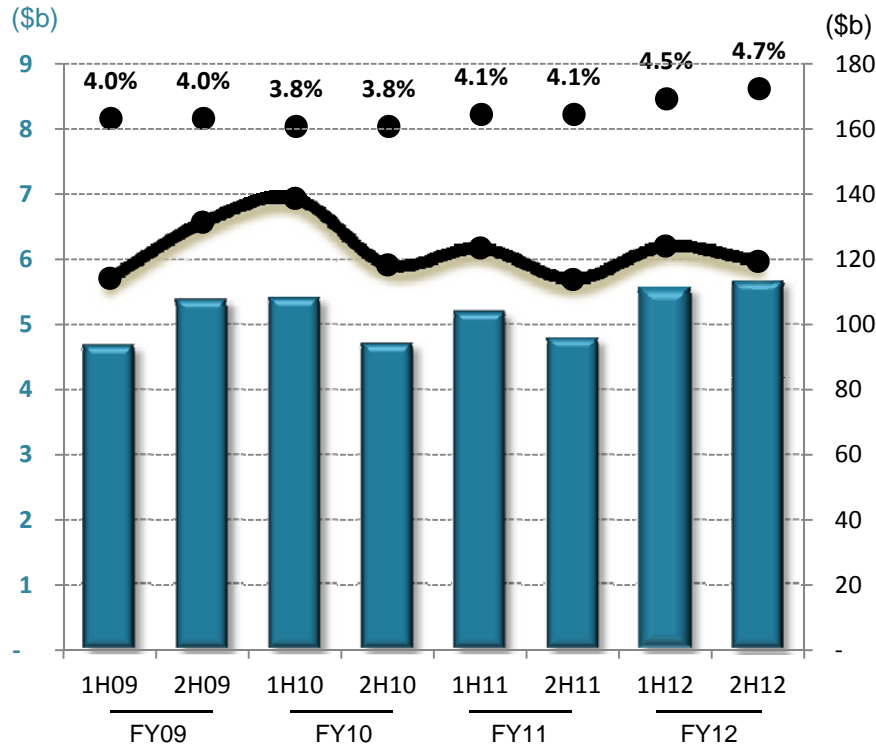
Settlements trend (\$'000)



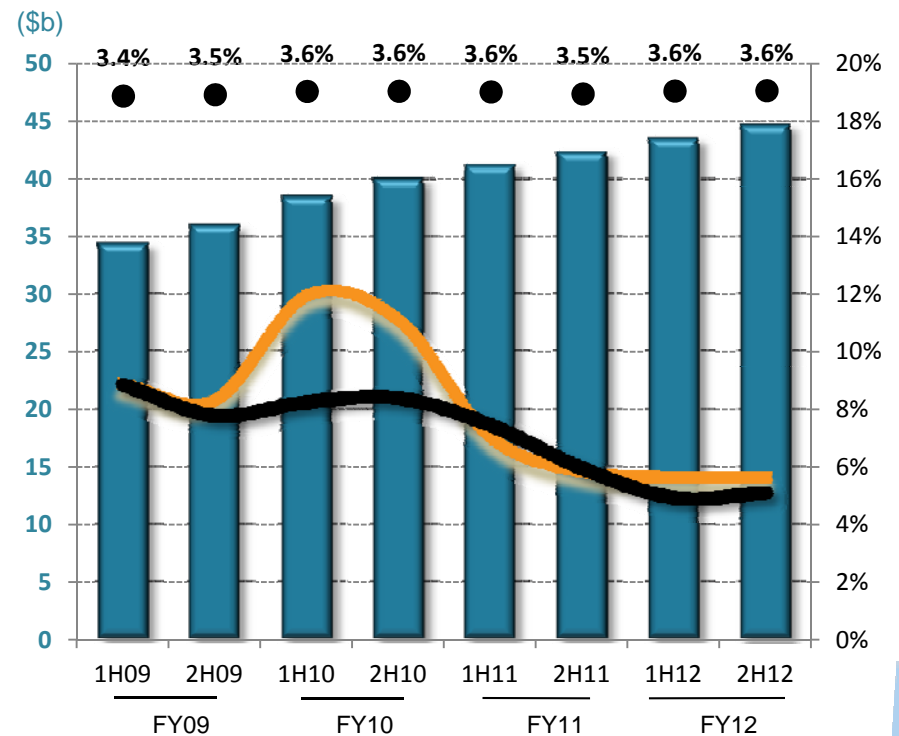
✓ Settlements trend is indicative of the growth in the business in FY12

Approvals, loan book & market share

Approvals



Loan book

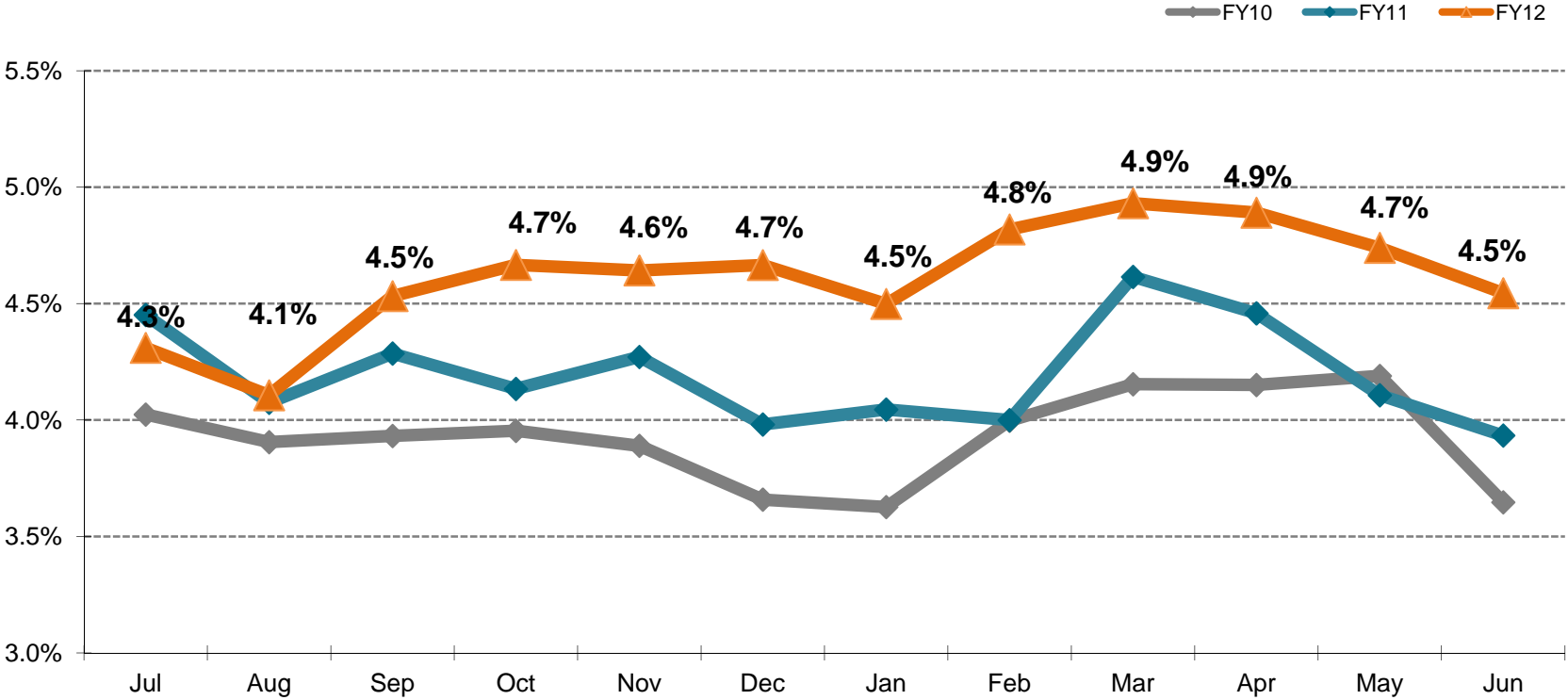


- Market share
- Mortgage Choice approvals
- Market approvals (ABS Owner Occupied + Investment)

Market share calculated using ABS data original series (Includes 'Alterations and Additions', excludes 'Construction of dwellings for rent/resale from Investment')

- System share
- Mortgage Choice loan book
- Mortgage Choice loan book growth over 12 month period
- Market book growth over 12 month period (RBA Financial Aggregates)

Market share - approvals



✓ Average market share increased from 4.2% in FY11 to 4.6% in FY12

Mortgage Choice core business

	FY12	FY11	
NPAT - cash	16.8 m	16.7 m	0.6% ↑
- IFRS	19.8 m	28.2 m	29.8% ↓
Loan book	43.6 b	41.4 b	5.3% ↑
Approvals	10.1 b	9.5 b	6.3% ↑
Settlements	8.7 b	8.3 b	4.8% ↑
Market Share	4.2 %	4.0 %	0.2% ↑

✓ Strong 2H12 helped to deliver another solid cash NPAT result for our core business

Key messages

- ✓ Solid result that continues to reflect the investment in our diversified businesses
- ✓ Group cash NPAT down 5.7% to \$15.0m, however Mortgage Choice core business reported yet another increase in cash NPAT
- ✓ Group loan book up 6.4% to \$45.1b
- ✓ Shareholders rewarded with another impressive dividend –13c fully franked represents an industry leading yield of 10.1% (based on share price of \$1.285)
- ✓ Market share up from 4.2% to 4.6% for new home loans written
- ✓ Strong recruitment performance:
 - Franchise numbers up from 368 to 380 - highest since Jan 2009
 - Franchise owners up from 330 to 338 - highest since Jul 2008
- ✓ Our DREAM strategy has delivered the transformation we were seeking
- ✓ In continuing down the path of sustainable growth, we look forward to unveiling our new 3 year strategic plan

FY12 results

Performance highlights

Michael Russell

Financial performance

Susan Mitchell

Economy and industry

Michael Russell

Operations

Michael Russell

3 year strategy

Michael Russell

Appendices

Profit & loss statement

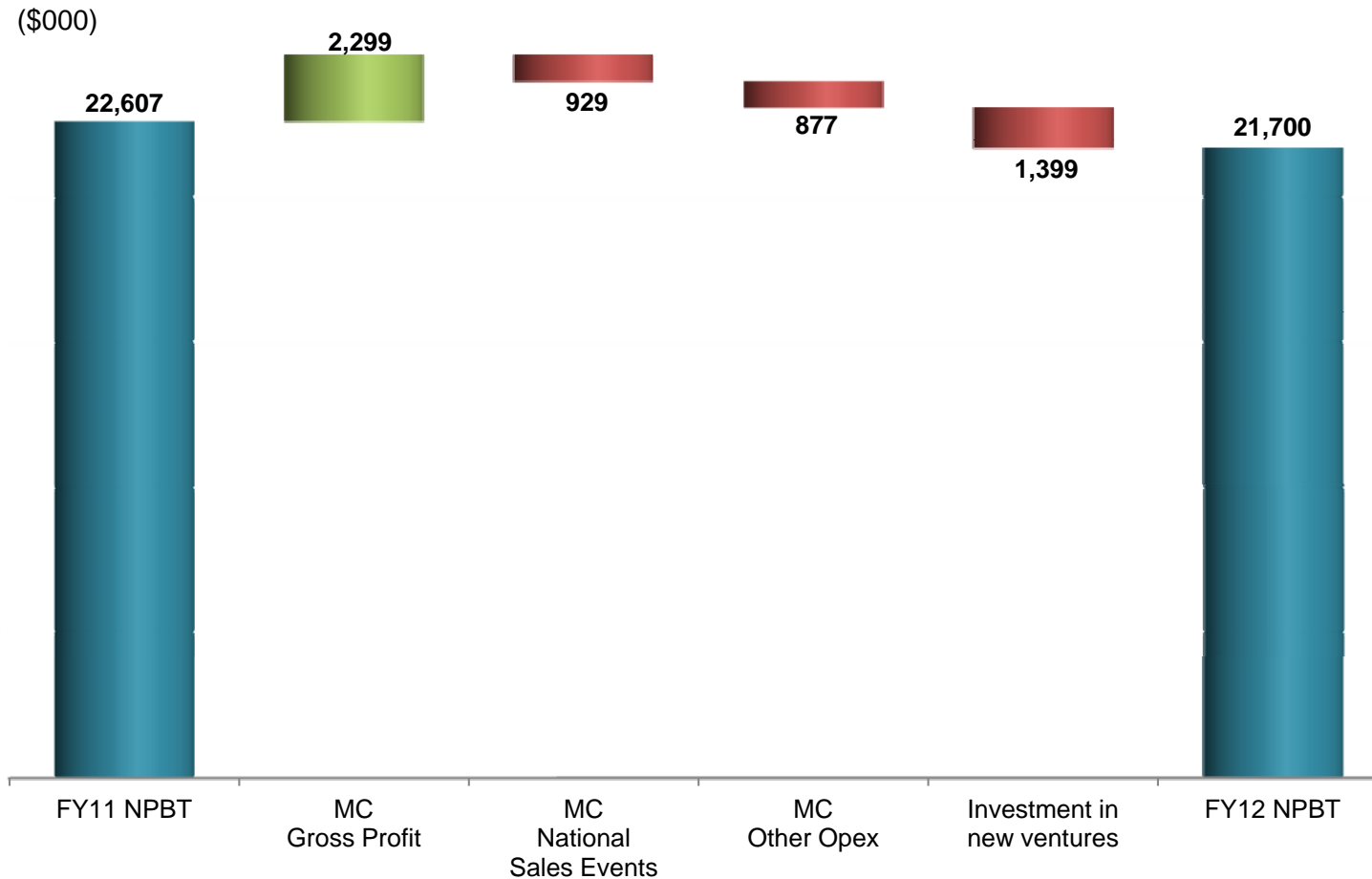
	FY12 Cash*	FY11 Cash*	% change	FY12 IFRS	FY11 IFRS	% change
Origination commission received	51,062	49,093	4%	51,062	49,093	4%
Trailing commission received	84,448	83,777	1%	96,944	114,336	(15%)
	<u>135,510</u>	<u>132,870</u>	<u>2%</u>	<u>148,006</u>	<u>163,429</u>	<u>(9%)</u>
Origination commission paid	36,380	34,752	5%	36,380	34,752	5%
Trailing commission paid	50,073	50,540	(1%)	57,751	63,832	(10%)
	<u>86,453</u>	<u>85,292</u>	<u>1%</u>	<u>94,131</u>	<u>98,584</u>	<u>(5%)</u>
Net core commission	49,057	47,578	3%	53,875	64,845	(17%)
Diversified products net revenue	570	525	9%	570	525	9%
HMC and LoanKit net revenue	1,621	881	84%	2,249	881	155%
Other income	2,754	1,906	44%	2,754	1,906	44%
Gross profit	54,002	50,890	6%	59,448	68,157	(13%)
Operating expenses	32,303	28,284	14%	32,303	28,284	14%
Share based remuneration	-	-	-	470	544	(14%)
Net profit before tax	21,699	22,606	(4%)	26,676	39,329	(32%)
Net profit after tax	15,022	15,915	(6%)	18,455	27,459	(33%)
EPS (cps)	12.5	13.3	(6%)	15.4	22.9	(33%)
DPS (cps)	13.0	13.0	-	13.0	13.0	-

Payout

	FY12	FY11	% Change
Origination commission received	51,062	49,093	4%
Origination commission paid	<u>36,380</u>	<u>34,752</u>	5%
Net origination income	<u>14,682</u>	<u>14,341</u>	2%
Origination Payout	71.2%	70.8%	
Trailing commission received	84,448	83,777	1%
Trailing commission paid	<u>50,073</u>	<u>50,540</u>	(1%)
Net trail income	<u>34,375</u>	<u>33,237</u>	3%
Trail Payout (inc MOC book)	59.3%	60.3%	
Trail Payout (exc MOC book)	61.3%	61.9%	
Net Commission	49,057	47,578	3%
Total Payout (inc MOC book)	63.8%	64.2%	
Total Payout (exc MOC book)	65.1%	65.2%	

✓ Total payment to franchisees (excluding Mortgage Choice's own book) will not fall below 65%

Net cash profit before tax



- ✓ MC gross profit up due to increases in net core commission and other income
- ✓ 4% drop in cash NPBT after investment in new ventures of \$1.4m

Divisional results

\$000	2H12				1H12				2H11			1H11				
	MC	HMC	LK	FP	MC	HMC	LK	FP	MC	HMC	LK	MC	HMC	LK		
Settlements	4.4b		0.6b		4.3b		0.4b		4.0b		0.2b		4.3b		0.2b	
Gross profit (IFRS)	30,827	949	476	-	26,284	590	322	-	41,655	324	244	25,606	163	165		
Gross profit (Cash)	25,771	625	476	-	26,522	286	322	-	24,687	324	244	25,307	163	165		
EBITDA	14,065	(377)	(467)	(199)	11,543	(944)	(258)	-	11,405	(344)	(184)	13,517	(218)	(167)		
NPAT (IFRS)	12,629	(89)	(386)	(139)	7,151	(496)	(215)	-	19,134	(294)	(165)	9,092	(153)	(155)		
NPAT (Cash)	9,340	(316)	(360)	(139)	7,421	(709)	(215)	-	7,536	(294)	(165)	9,146	(153)	(155)		

- ✓ MC core business strong, reduced expenses in second half with annual opex still below \$29m
- ✓ HMC result stronger in second half on every measurement
- ✓ LoanKit revenue upward trend continues, additional opex in 2H12 expected to boost revenue in FY13

Lender commission rates

Upfront rate bps

Trail rate p.a. bps

Basic rate

Max rate

Year 1

Year 2

Year 3

Year 4

Year 5+



50

67.5

15

15

15

20

20



50

50

15

15

20

22.5

25



50

65

0

20

20

20

20



50

65

0

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20

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30



50

65

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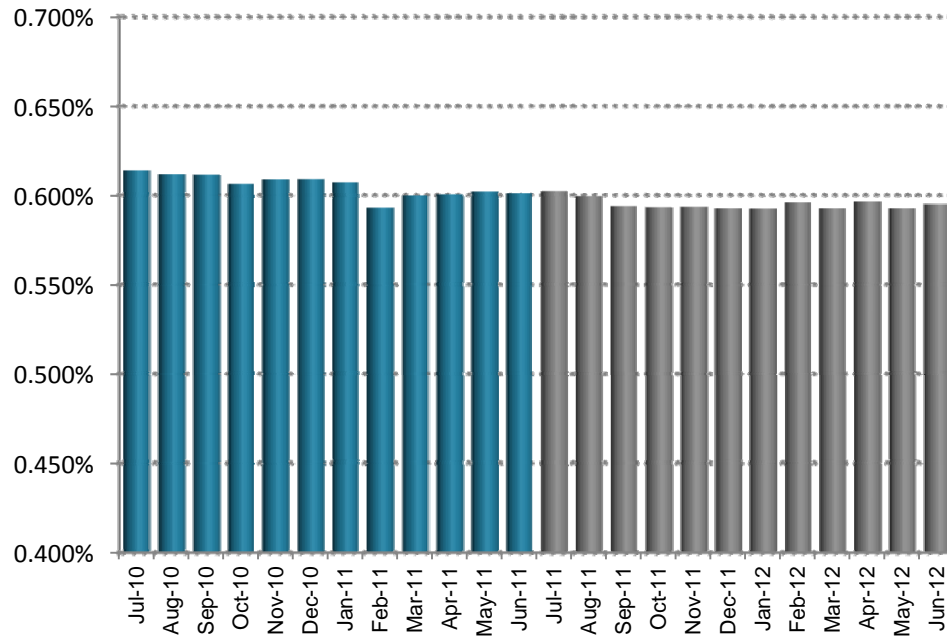
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Note: Conversion, ELPS, submission quality, LVR, loan size, volume, delinquency rate and professional qualifications influence maximum rate

Average commission rates

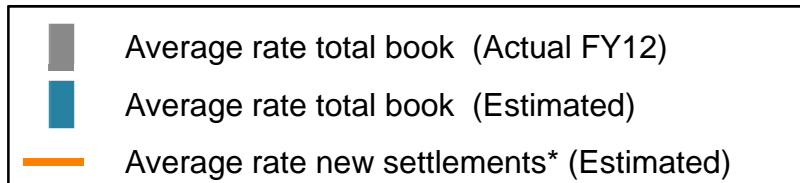
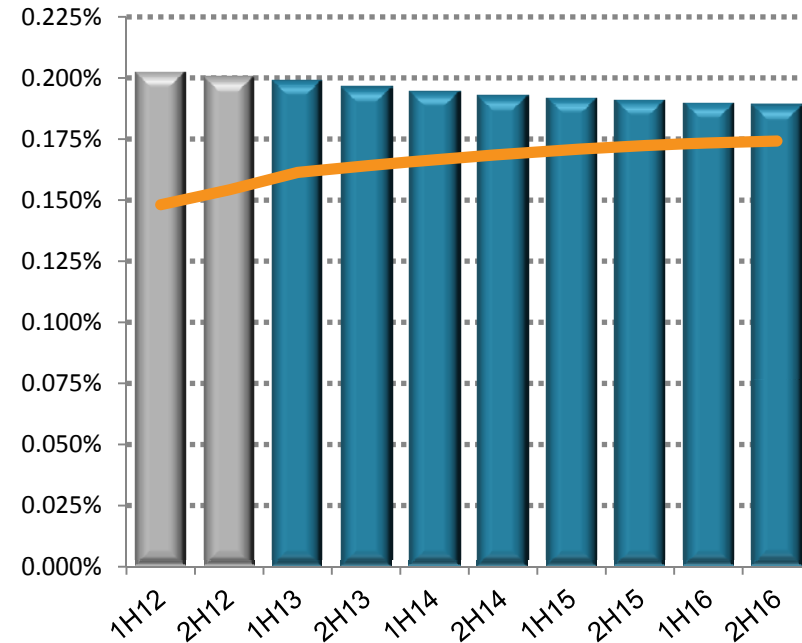
Average upfront rate



✓ Average upfront rate for FY12 was 0.595%

✓ Average long term trail rate is improving to 0.175%

Average trail rate



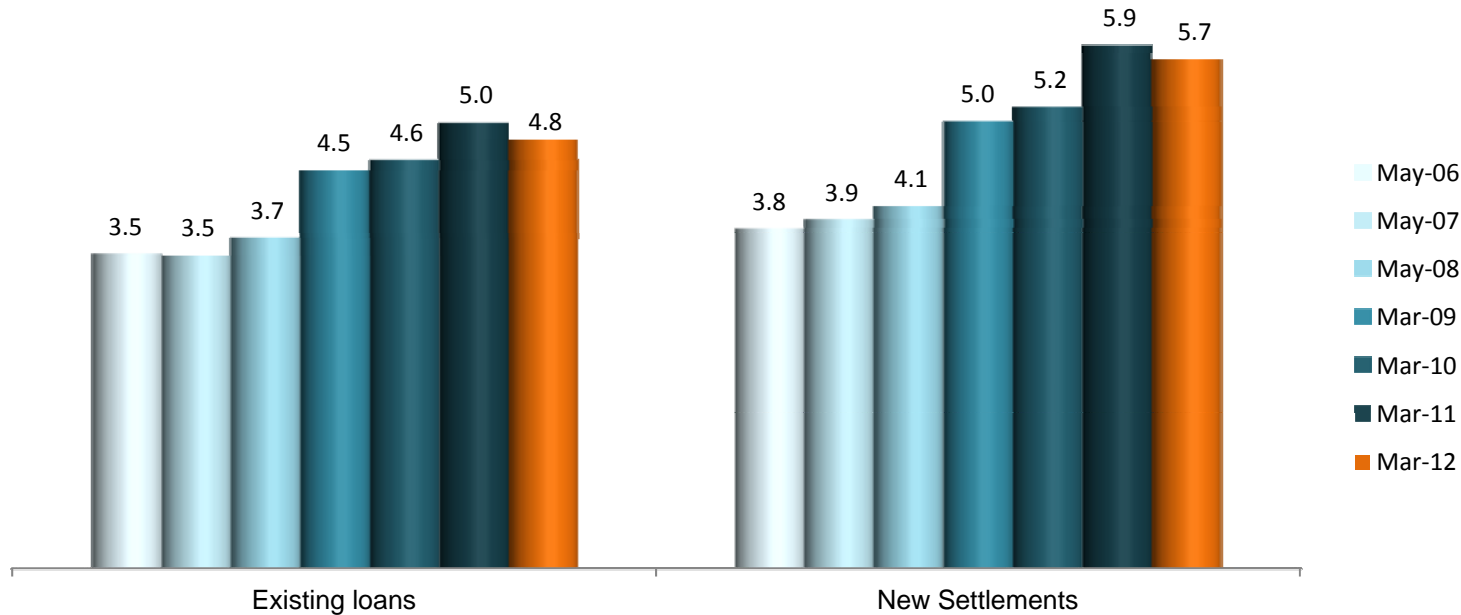
* Settlements from 1 Jan 2009 - projection based on our best estimates for lender mix, run off and settlements growth

Operating performance

(\$000)	FY12	FY11
Net profit before tax (cash basis)	21,699	22,606
Tax paid	(6,129)	(7,580)
Depreciation and amortisation	1,664	1,514
Purchase of fixed assets and intangibles	(382)	(934)
Other balance sheet movements	399	(1,649)
Cash flow before dividends	<u>17,251</u>	<u>13,957</u>
Dividends paid	(15,616)	(14,972)
Net cash movement	<u>1,635</u>	<u>(1,015)</u>

Loan life

Loan life - number of years



Source: Deloitte Actuaries & Consultants Limited

The loan life is a projection of the future at the date of calculation. Each year's loan life is based on the experience of that year, assuming this recurs in all the years

- ✓ Net residential trail commission asset after tax – \$82m, up 4% from \$79m
- ✓ Loan life of 4.1 (existing) and 4.7 (new) years used in valuation assumptions

FY12 results

Performance highlights

Michael Russell

Financial performance

Susan Mitchell

Economy and industry

Michael Russell

Operations

Michael Russell

3 year strategy

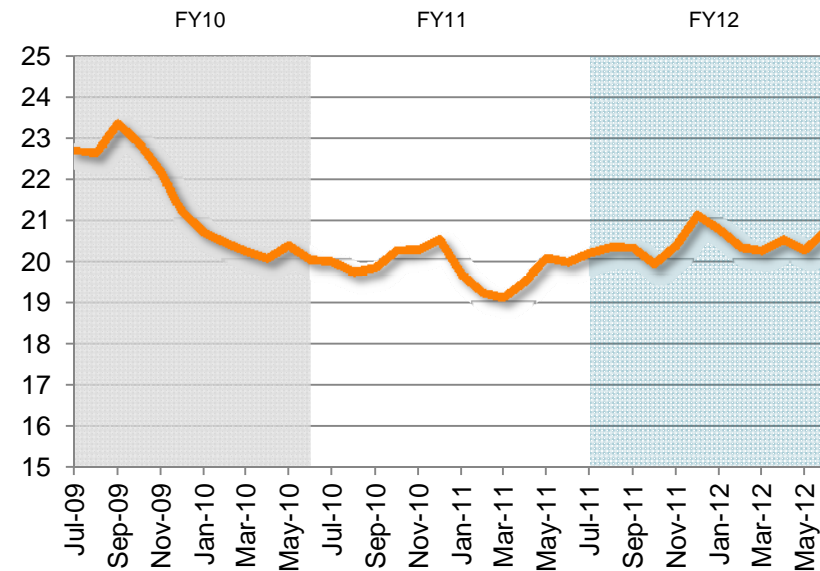
Michael Russell

Appendices

FY12 Housing finance commitments

- ✓ FY12 new housing finance commitments were up 2.9% on FY11 (\$244.8b vs. \$237.9b respectively)
- ✓ First homebuyer lending increased by 14.4% from \$25.1b to \$28.7b. Number of first homebuyers as a percentage of o/o increased on average from 16.7% in FY11 to 18.1% in FY12
- ✓ Refinance lending increased by 17.2% from \$42.4b in FY11 to \$49.7b in FY12
- ✓ Owner occupied lending increased by 4.1% from \$157.2b in FY11 to \$163.7b in FY12
- ✓ Investment lending increased by 0.6% from \$80.6b in FY11 to \$81.1b in FY12

**Housing finance \$b trend
(Owner occupied + Investment)**



Source: ABS 5609 table 11 - Housing Finance, Australia, Jun 2012
(seasonally adjusted series)

Much of the same in FY13

Tailwinds

- ✓ Steady population growth
- ✓ Stable interest rate outlook
- ✓ Competition between lenders is fierce
- ✓ Low unemployment
- ✓ Housing undersupply

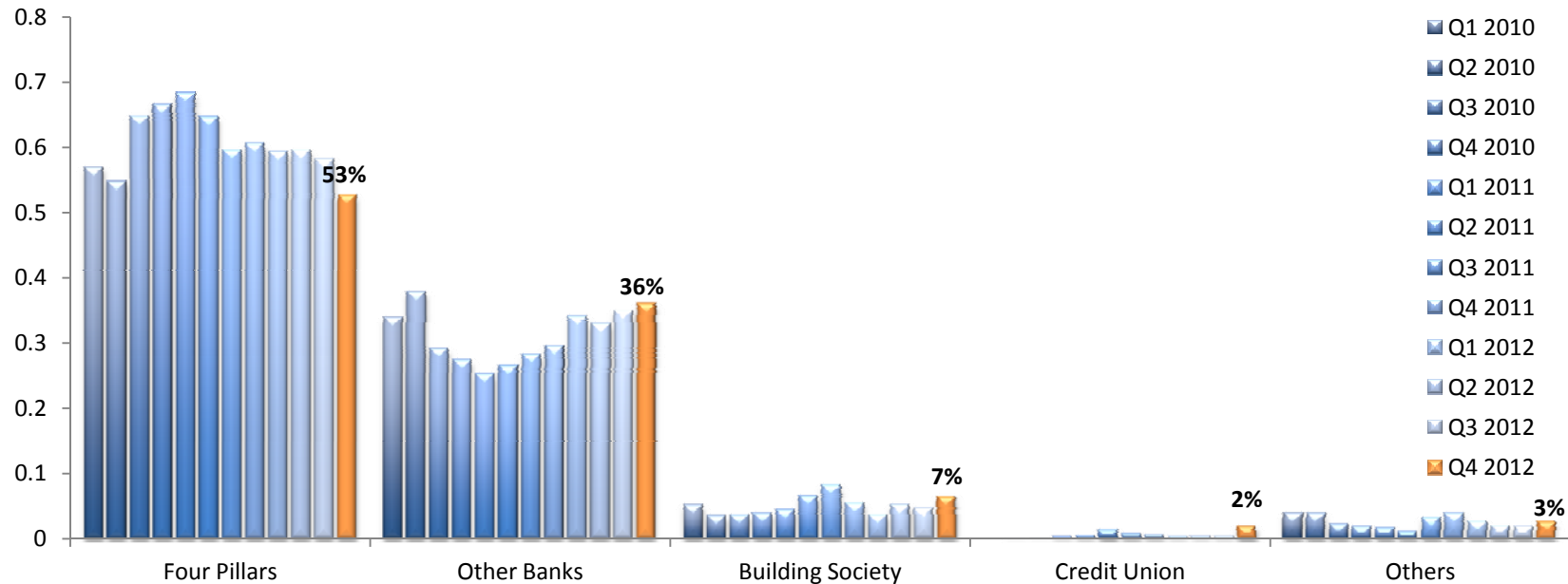
Headwinds

- ✓ Out-of-cycle interest rate movements
- ✓ Increased lender funding costs
- ✓ Global economic uneasiness
- ✓ Falling house prices
- ✓ Consumers deleveraging and saving more

As at June

	2008	2009	2010	2011	2012	2013 (f)
Credit Growth % – Total	11.8	3.3	3.1	2.8	4.4	5-7
Credit Growth % – Housing	9.6	6.6	8.0	6.0	5.1	5-7
Credit Growth % – Business	16.9	0.9	-3.9	-2.2	4.4	5½-7½
Credit Growth % – Other Personal	3.4	-7.0	3.0	1.0	-1.5	4-6
GDP %	3.8	1.4	2.3	1.9	3.4 (f)	3.5
CPI %	3.4	3.1	2.3	3.1	2.3	2.6
Unemployment rate %	4.2	4.9	5.5	5.1	5.2	5.5
Cash Rate %	7¼	3	4½	4¾	3½	3¼

Mortgage Choice settlements by lender



- ✓ While the four pillars continue to dominate new home lending, their share dropped 8% from 61% to 53% over the year, losing 5% in Q4 2012
- ✓ Other Banks have increased their share over the year from 29% to 36%
- ✓ Similarly, Building Societies, Credit Unions and Other lenders have also improved their share

FY12 results

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Appendices

FY12 operational landmarks

- ✓ Launched a range of new professional development programs:
 - *Accelerate - two year new broker training program*
 - *Investment Property Lending*
 - *SMSF Lending*
- ✓ Further integrated our suite of Google enterprise apps and productivity tools to ensure our network is well equipped to work within the mobile environment
- ✓ Launched *Home Loan Helper* iPhone and android app
- ✓ Launched Mortgage Choice Motor Loans product
- ✓ Added Gateway Credit Union to our residential lender panel
- ✓ Launched the new 'Make the right move' TVCs
- ✓ Partnered with Ronald McDonald House Charities in Oct 2011 and have since raised over \$125k in donations
- ✓ Obtained Australian Financial Services Licence (*Licence # 422854*) for our new financial planning business

FY12 national accolades include...

Company

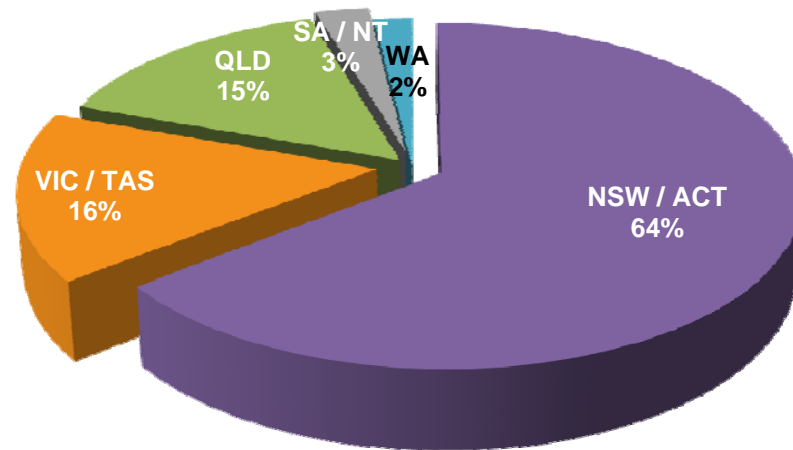
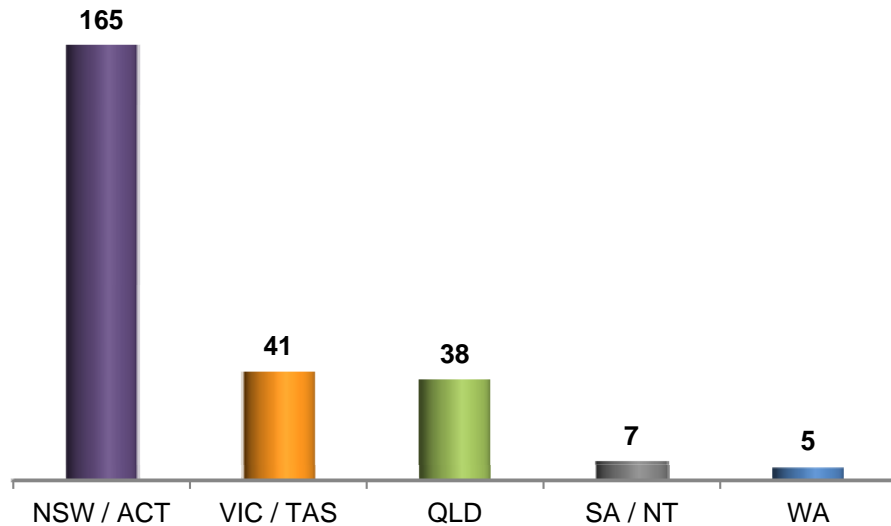
- ✓ 2012 MFAA Awards – Mortgage Choice – *Retail Aggregator/Originator of the Year*
- ✓ 2011 The Adviser's *Top 25 Brokerages list* – Mortgage Choice – ranked number one of the list for the fourth consecutive year
- ✓ 2011 Australian Broking Awards – Mortgage Choice – *Major Brokerage of the Year – Franchise*

Franchisee

- ✓ 2012 MFAA Awards – Keith Caine (SA) – national *Achievement Award*
- ✓ 2012 NSW Franchise of Australia's Excellence in Franchising Awards – Bianca Long (NSW) – *NSW Franchisee of the Year Award (less than 2 staff) award*
- ✓ 2011 Franchise Council of Australia's Excellence in Franchising Awards – Belinda Sugars (SA) – national *Franchise Woman of the Year award*
- ✓ 2011 Australian Mortgage Awards – Wendy Higgins (SA) – *Golden Morgie for Lifetime Achievement in the Mortgage Industry award*

LoanKit snapshot

- ✓ Launched mortgage aggregation business on 27 Apr 2010
- ✓ Settlements - \$966m in FY12, up 188% from \$335m pcp
- ✓ Loanbook - \$1.56b as at Jun 2012, up 68% from \$926m pcp
- ✓ Broker numbers up from 195 to 256



Note: Broker number includes brokers on aggregation platform and software only users






HelpMeChoose.com.au

- ✓ New GM appointed Dec 2011
- ✓ The business has delivered a much improved second half performance across virtually all operating metrics
- ✓ Management can once again see the blue ocean opportunities HelpMeChoose.com.au can deliver to both Mortgage Choice and to our new financial planning enterprise

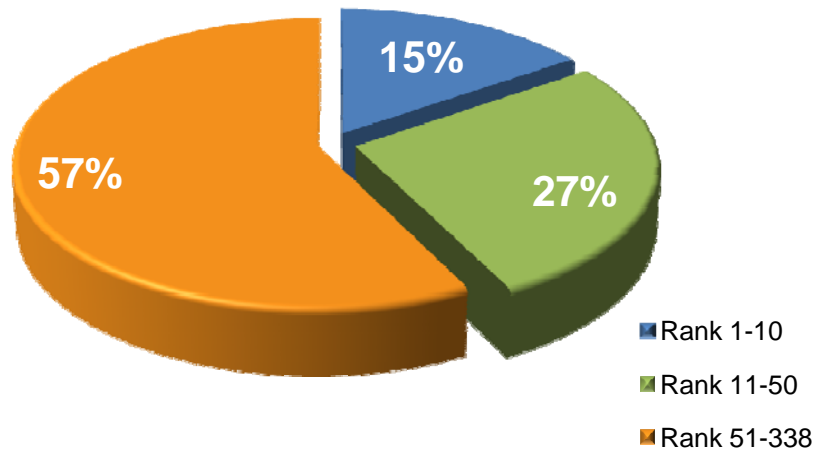
	Q1 2012	Q2 2012	Q3 2012	Q4 2012
NPAT - IFRS	-\$290K	-\$206K	-\$159K	+\$70K
NPAT - IFRS		-\$496K		-\$89K

Mortgage Choice network snapshot

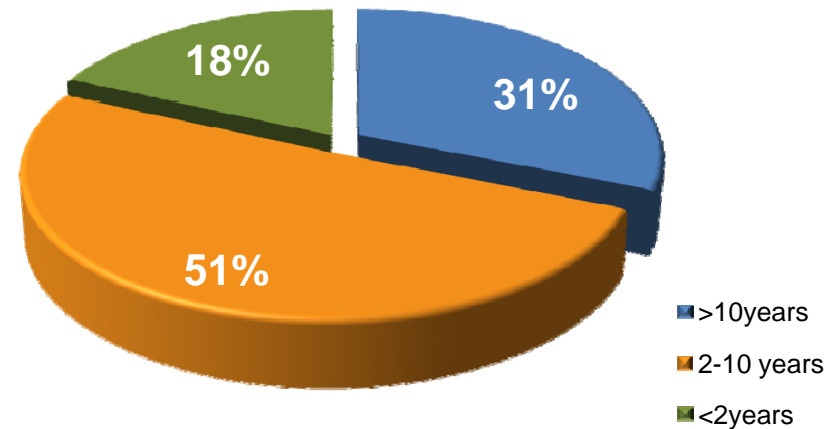
	<u>National*</u>	<u>NSW & ACT</u>	<u>VIC & TAS</u>	<u>QLD</u>	<u>SA & NT</u>	<u>WA</u>
	\$43.6b	37%	20%	24%	9%	10%
	498	173	119	112	36	58
	380	142	80	85	25	48

* Excludes LoanKit

Franchise owner share of settlements



Franchise owner experience



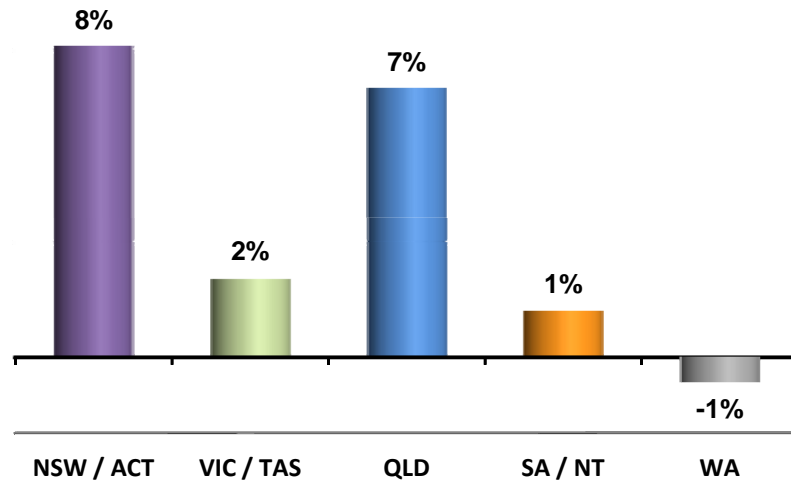
✓ Our professional, experienced brokers continue to proudly deliver service excellence to customers and lenders

By state performance

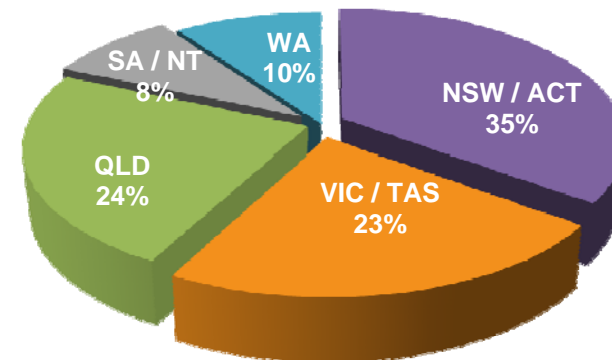
<u>Settlements (\$ mil)</u>	<u>FY12</u>	<u>%</u>	<u>FY11</u>	<u>%</u>	<u>Growth</u>
NSW / ACT	3,064	35%	2,836	34%	8%
VIC / TAS	1,976	23%	1,936	23%	2%
QLD	2,073	24%	1,938	23%	7%
SA / NT	753	8%	745	9%	1%
WA	859	10%	864	11%	-1%
	8,725	100%	8,319	100%	5%

* Excludes LoanKit settlements

Settlements growth FY12 / FY11

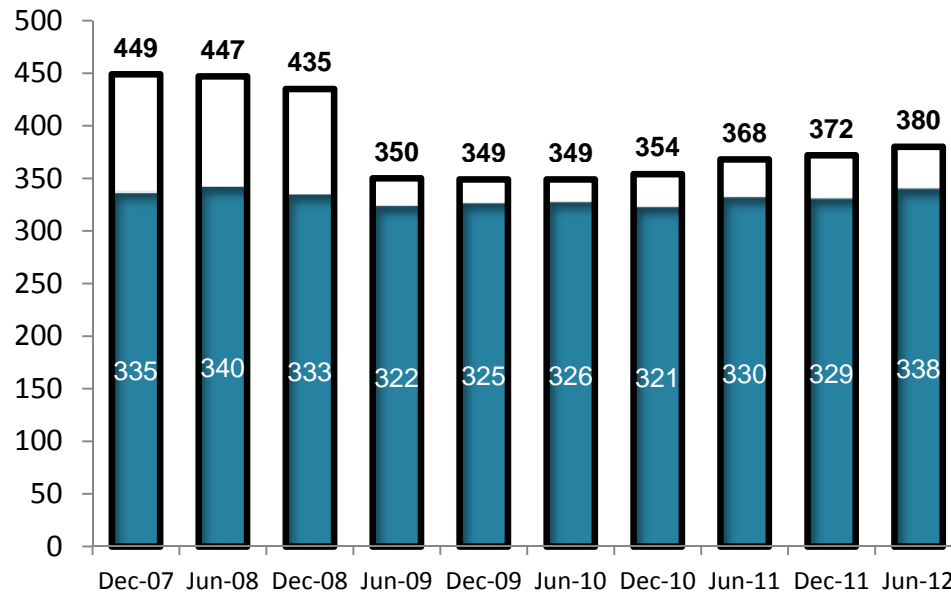


States contribution to settlements



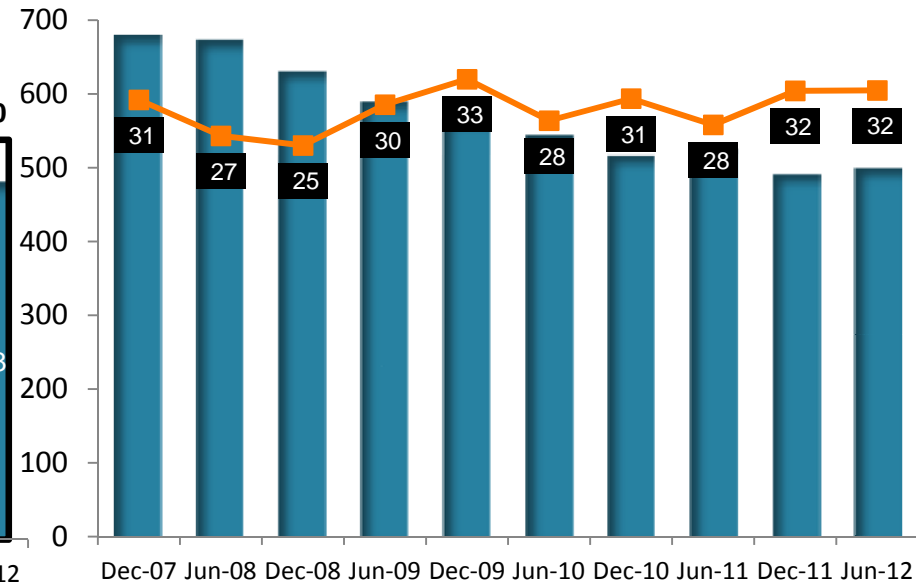
Our network strength is growing

Network



■ Franchise owners ■ Franchises

Productivity settlements



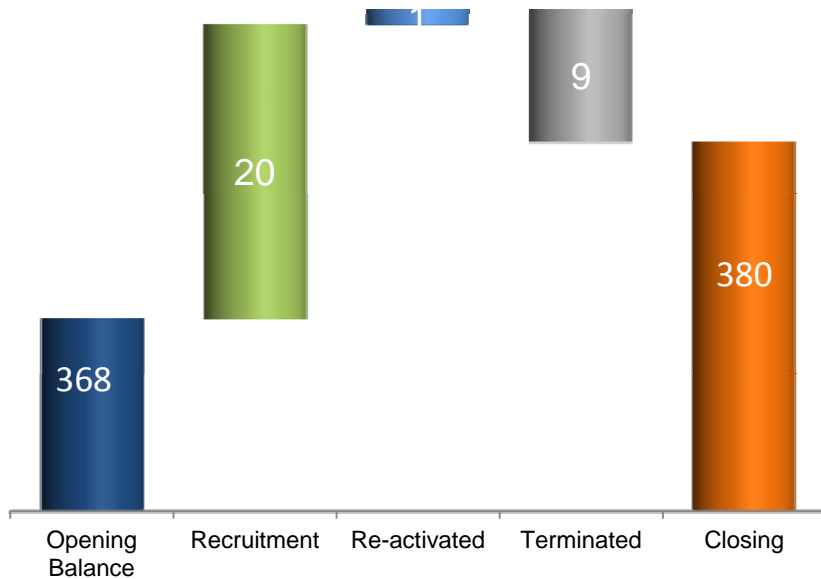
■ Brokers ■ Settlements/Broker

✓ Impressive growth in both the number of franchises and franchise owners

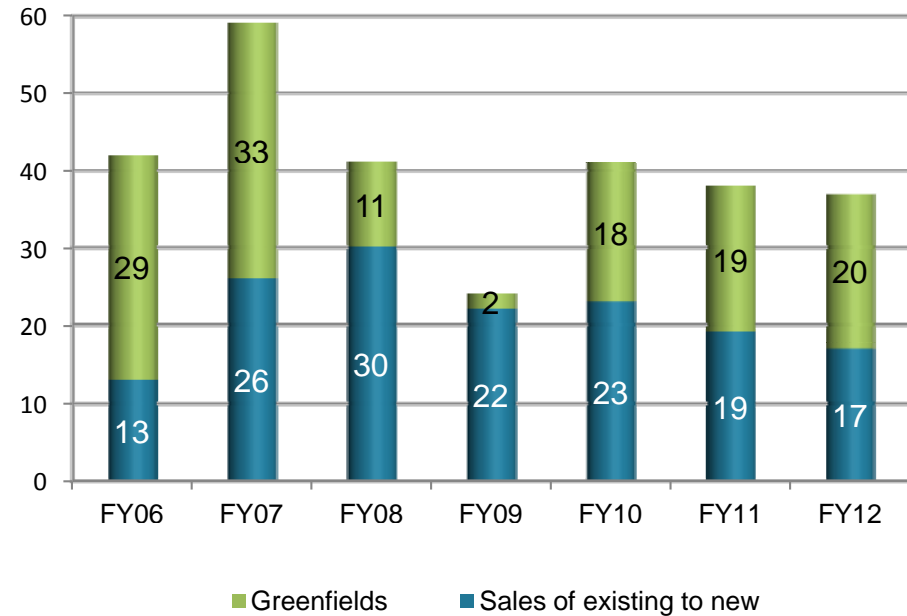
✓ Loan settlements per broker improved in FY12

Franchise recruitment

Franchise movement



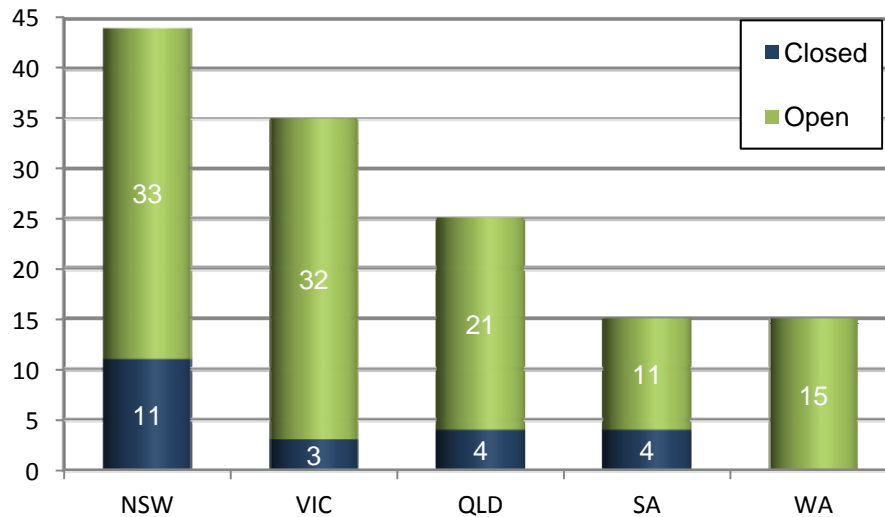
Sale of greenfields and existing franchises



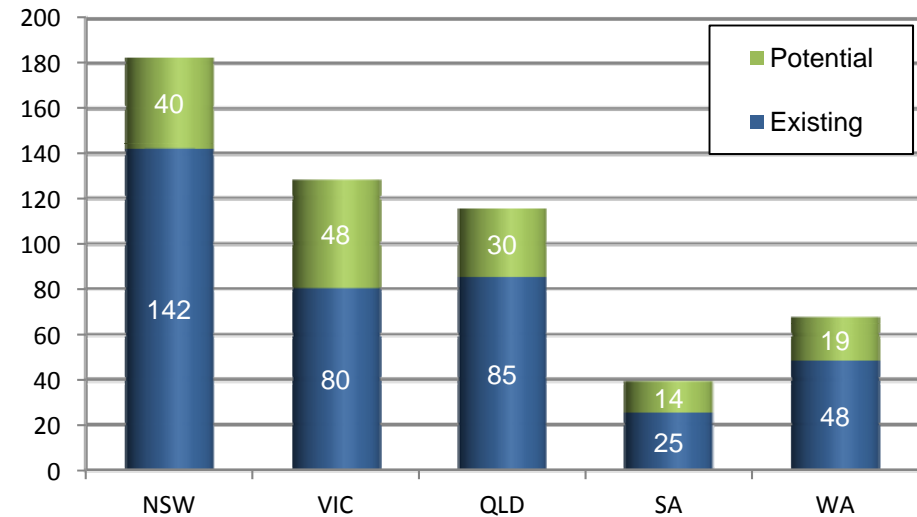
- ✓ 20 greenfields recruited and 17 existing franchises were sold to new owners
- ✓ Overall franchise number increased by 12 to 380, highest since Jan 2009
- ✓ Result again demonstrates the strong commercial viability of our franchise system

Capacity for growth in recruitment

Marketing areas



Franchises



- ✓ Marketing area capacities are assessed quarterly using an external benchmarking model that takes into account geographic data, ABS data and franchise settlements
- ✓ In 134 marketing areas, 112 greenfield sites are available, down from 114 last year
- ✓ We have capacity to increase our franchise footprint from 380 to 531

Broker usage by consumers

Mortgage Choice continues to provide a customer value proposition that no single lender can:

- ✓ *choice of lender and loan product*
- ✓ *convenience to meet our customers at a time and place that suits them*

The J.P Morgan/Fujitsu Australian Mortgage Industry report Mar 2012 found:

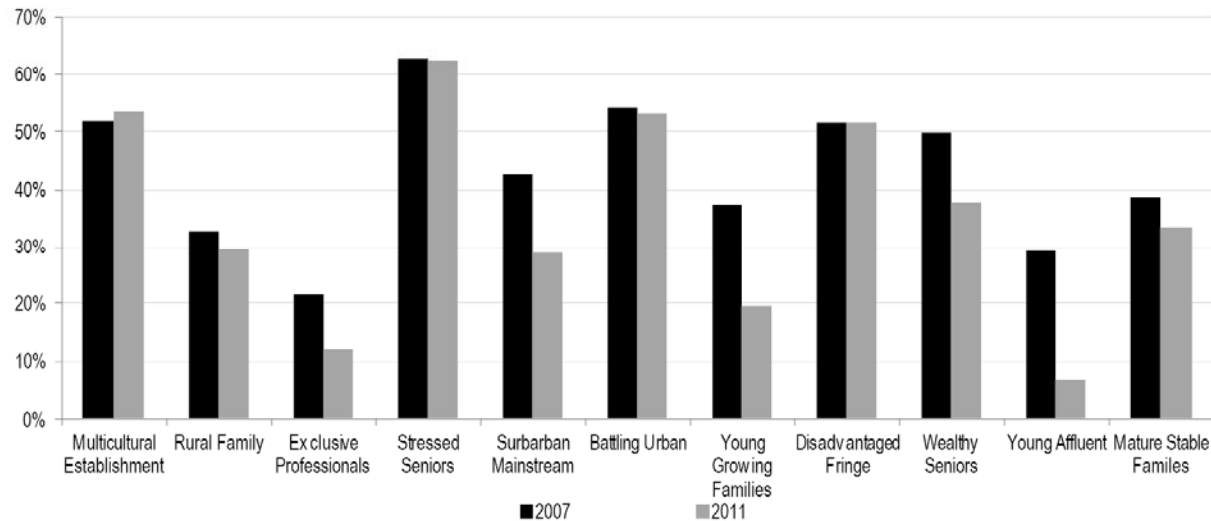
- ✓ *Broker volumes have continued their recovery back to pre-GFC levels during 2011*
- ✓ *The proportion of new loans through brokers has increased moderately to 43%*
- ✓ *26,000 banking customers surveyed were asked the question, 'Would you consider using a broker to help find the best mortgage product?'*



Source: J.P Morgan/Fujitsu - Australian Mortgage Industry – Volume 15 – 28/03/12

Bank branch usage by consumers is changing

Figure 3: Branch Preference Over Time
Proportion of Fujitsu Segment



Source: Fujitsu Australia.

'Somewhere in the order of 30% of the bank branch network is at risk of being stranded in locations where customer preferences are not strongly aligned towards branch usage'

'The financial metrics and the fixed cost leverage of the traditional branch networks need to be reconsidered'

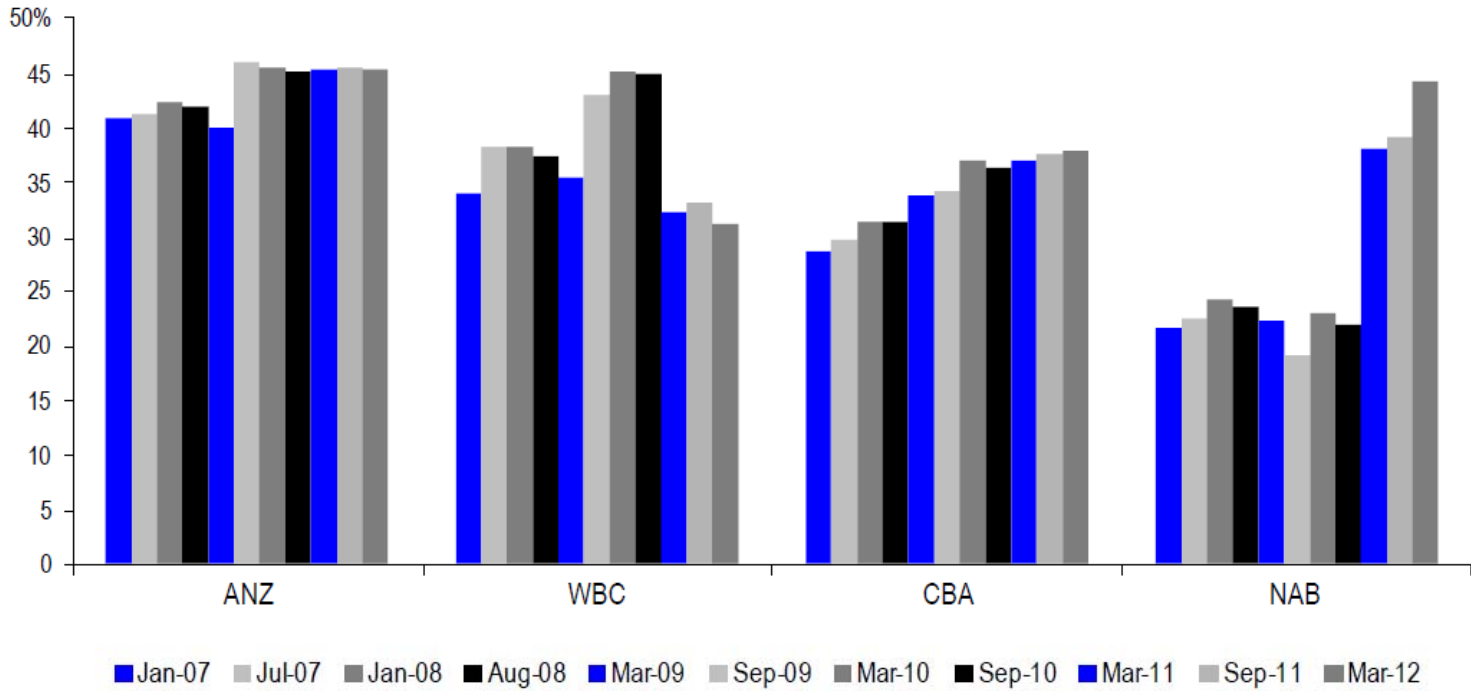
Source: J.P Morgan – 'Response for low growth: Longer term reassessment of the branch network' 20/09/2011


'CBA's investment in new services for mobiles and tablets is likely to be funded from the shrinking of its branch network'

Source: Australian Financial Review 16/8/2012 Chanticleer


Broker usage by banks

Figure 34: Broker Originated Loans as a Proportion of Major Bank Housing Loans Issued







45%



30%



37%



45%

Source: Fujitsu Australia estimates (statistics based on number count)

FY12 results

Performance highlights

Michael Russell

Financial performance

Susan Mitchell

Economy and industry

Michael Russell

Operations

Michael Russell

3 year strategy

Michael Russell

Appendices

Strategic intent - vision for 2015

By 2015, it is the intent of Mortgage Choice to be:

- ✓ Australia's largest branded mortgage broker
- ✓ Australia's favorite mortgage broker
- ✓ Australia's fastest growing branded financial planning organisation
- ✓ One of Australia's largest and fastest growing franchise operations
- ✓ A diversified financial services and wealth solutions business where we engage our customers through their channel of choice

Measures of success for 2015:

- ✓ Increase in market share and loan-writer productivity > 7 loans pm
- ✓ Customer satisfaction to remain > 90%
- ✓ MCFP to comprise at least 60 franchisees with strong net monthly growth
- ✓ Mortgage Choice to have over 450 franchisees across two franchise systems
- ✓ Two franchise systems operating in perfect harmony to delight our customers

New 3 year strategic plan

A

- **Acquire** greater market share in our core mortgage business

C

- **Cross-sell** our mortgage customers into our financial planning business

T

- **Transition** the company into a diversified financial services and wealth solutions business

New 3 year strategic plan

A

How are we going to acquire new mortgage customers?

- New corporate website (Nov 12) will be optimised for mobile devices and designed to simplify the customer journey from visit to enquiry
- New marketing campaign will focus on call to action consumer messaging
- Launch of a new sales mission in state offices - *Game On*
- Align and narrow the focus of all company staff

C

How are we going to cross sell our mortgage customers into our financial planning business?

- By building a financial planning consumer proposition that customers will find irresistible (Henry Ford)
- By leveraging our established customer relationship as their trusted finance professional
- By selling the independence of our financial planning business with its own licence and own APL
- By designing a customer pricing model that is clear, transparent, competitive and tailored to specific customer needs
- By presenting our mortgage franchisees with an equity opportunity to increase their brand ROI

T

How are we going to transition into a diversified financial services and wealth solutions business?

- By stretching our brand to become the one stop financial services provider we know our customers want
- By providing web, phone, and face to face channels to engage our customers at a time and place convenient to them

Why is diversification so important for Mortgage Choice?

Brand strength

- Iconic brand
- Easily leveraged into other financial services

Consumers asking for more

- Consumers are wanting more
- We know our customers want our brand to deliver more

Legislation

- NCCP & FoFA
- First Mover Advantage

'Cross sell of wealth and insurance products will be the other 'holy grail' of mortgage lending to receive a strong focus in 2012'

Source: Deloitte -The Australian Mortgage Report 2012 - A 'new normal'

Financial planning - market opportunities

✓ The financial planning market is set for explosive growth:

1. Simple ('scaled') advice

- Growth from 4% to 15% by 2023*

2. Superannuation

- Growth > 8% p.a.**
- SGC increasing from 9% to 12%
- SMSFs continue to grow
- FUM to grow from \$1.3 trillion to \$2.8 trillion by Dec 2021**

3. Risk insurance

- Premiums growth of 12.1% p.a.**
- From \$12.2b to \$37.9b in premiums by Dec 2021**

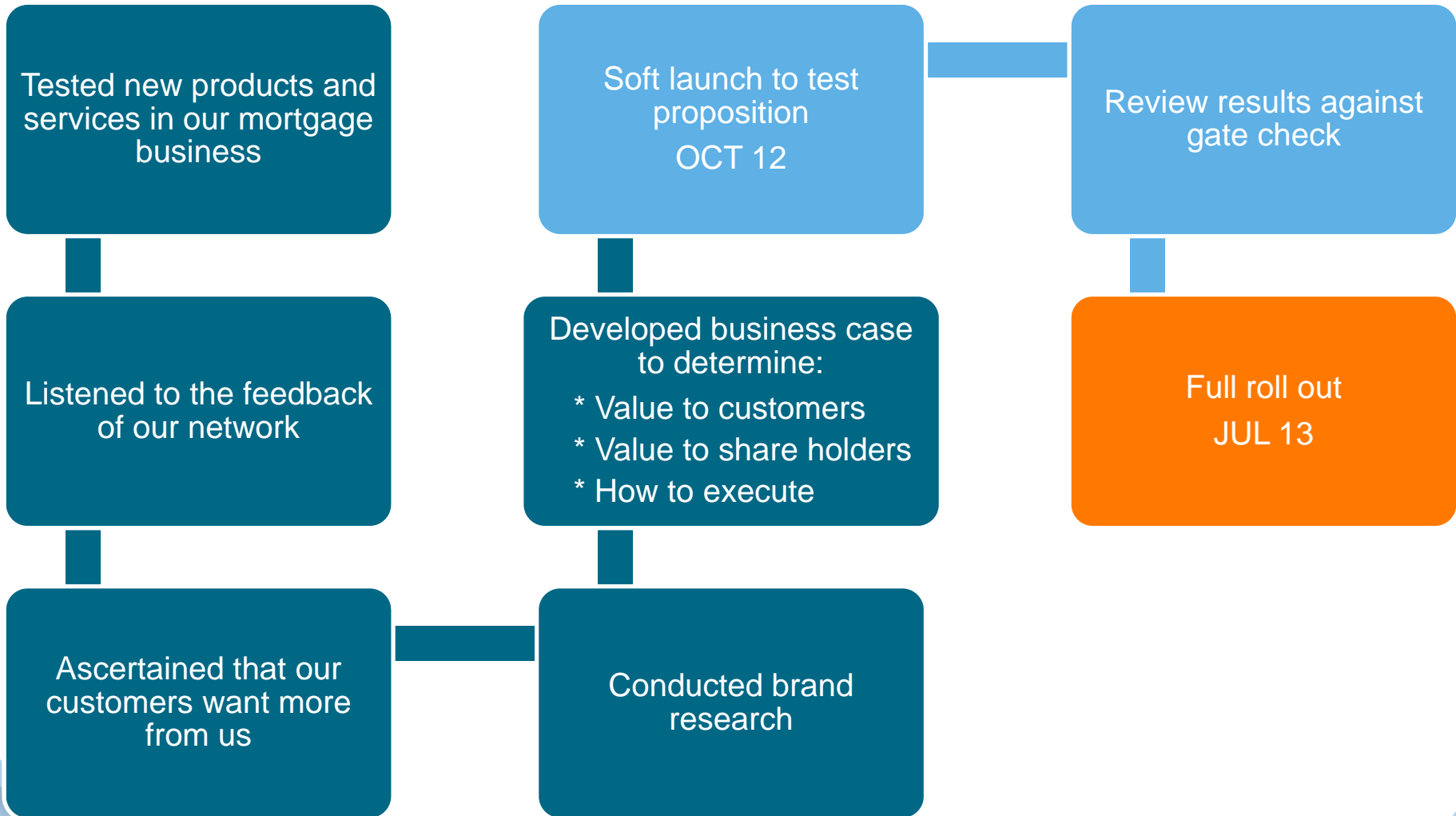
✓ Our customers are in these growth segments and are asking for trusted financial advice

✓ By transitioning to a financial services business we can satisfy their needs

* Rice Warner Actuaries, Mar 2010 - % of people

** DEXX&R Report Market Projection Report, Jun 2012

Evolution of our brand to stretch into **MORTGAGE CHOICE FINANCIAL PLANNING**



We're investing to build a revolutionary Australian business in the new world of financial planning

Investment

- FY13 investment c. \$1.3m to \$1.5m after tax, fully expensed
- Total investment c. \$3m after tax over 3 years

Breakeven

- We expect to be breakeven on a monthly basis during FY15

Opportunity

- Mortgage Choice's 80,000+ new customer enquiries each year together with enquiries generated from our existing database, will deliver a substantial lead flow to our business
- We intend to revolutionise the way consumers access quality financial planning advice, in the same way we did in the home loan business 20 years ago

Summary

- ✓ Healthy approvals, settlements and loan book growth despite subdued credit growth
- ✓ Mortgage Choice core business is again set to deliver a strong result in FY13
- ✓ Highest number of franchises (380) since the franchise model restructure in Jan 2009
- ✓ Resurgence in training initiatives to ensure our brokers are well equipped to deal with the changed lending environment
- ✓ Shareholders rewarded with another impressive dividend
- ✓ October will see the soft launch of MCFP with a select group of trailblazing franchisees
- ✓ Despite our investment in new businesses, we expect to achieve a similar cash NPAT result in FY13 and maintain our current dividend

Questions

FY12 results

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Appendix 1: Half yearly statistics

\$Mil	1H07	2H07	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12
Origination inc	32.06	31.65	34.81	29.63	25.60	27.81	27.99	24.16	25.51	23.59	25.98	25.08
Origination exp	(22.91)	(22.65)	(24.92)	(20.64)	(18.69)	(19.38)	(20.25)	(16.99)	(18.14)	(16.62)	(18.43)	(17.95)
Trail inc	35.41	37.29	40.35	41.83	43.23	41.39	41.48	41.45	42.30	41.48	42.13	42.32
Trail exp	(20.77)	(22.41)	(24.92)	(25.23)	(26.07)	(26.83)	(25.78)	(25.55)	(25.39)	(25.15)	(24.99)	(25.08)
Net Upfront	9.15	9.01	9.88	8.98	6.91	8.42	7.74	7.17	7.37	6.97	7.55	7.13
Net Trail	14.64	14.88	16.49	16.60	17.16	14.56	15.70	15.90	16.91	16.33	17.13	17.24
	23.79	23.89	26.37	25.59	24.07	22.98	23.44	23.08	24.28	23.30	24.68	24.38
Other Income	1.21	2.19	1.02	2.34	0.87	0.91	0.89	1.51	1.36	1.95	2.45	2.50
Cash PAT	8.39	8.16	8.58	8.49	6.43	6.55	7.79	7.04	8.84	7.08	6.50	8.52
AIFRS PAT	10.10	9.49	10.63	8.71	8.25	18.60	9.76	13.72	8.79	18.67	6.44	12.02
Cash e.p.s.	7.1 c	7.0 c	7.3 c	7.1 c	5.4 c	5.5 c	6.5 c	5.9 c	7.3 c	6.0 c	5.4 c	7.1 c
AIFRS e.p.s.	8.6 c	8.0 c	9.0 c	7.4 c	7.0 c	15.6 c	8.2 c	11.5 c	7.3 c	15.6 c	5.4 c	10 c
Div p.s.	5.50 c	8.50 c	6.00 c	8.00 c	4.75 c	5.50 c	5.50 c	6.50 c	6.00 c	7.00 c	6.00 c	7.00 c
Upront Payout	71.5%	71.5%	71.6%	69.7%	73.0%	69.7%	72.3%	70.3%	71.1%	70.4%	70.9%	71.6%
Trail Payout	58.7%	60.1%	61.8%	60.3%	60.3%	64.8%	62.2%	61.6%	60.0%	60.6%	59.3%	59.3%
Total Payout	64.7%	65.4%	66.3%	64.2%	65.0%	66.8%	66.3%	64.8%	64.2%	64.2%	63.8%	63.8%
Volumes MC												
Settlements # ('000)	20.77	20.07	20.85	17.64	15.81	17.85	18.73	15.36	15.91	14.56	15.58	15.86
Settlements \$ bn	4.80	4.72	5.20	4.36	4.10	4.52	4.82	4.07	4.33	3.99	4.34	4.39
Approvals \$ bn	5.46	5.68	5.88	5.08	4.64	5.42	5.39	4.59	4.98	4.55	5.11	5.04
Market \$ bn	123.033	132.370	139.425	120.024	114.793	133.935	142.754	124.058	126.389	116.291	124.097	119.399
Market Share	4.4%	4.3%	4.2%	4.2%	4.0%	4.0%	3.8%	3.7%	3.9%	3.9%	4.1%	4.2%
Avg Loan Book \$bn	26.92	27.45	30.83	32.50	33.91	35.06	36.97	38.40	39.73	40.68	41.68	42.76
Volumes LoanKit												
Settlements # ('000)								0.34	0.44	0.71	1.24	1.75
Settlements \$ bn								0.11	0.13	0.20	0.40	0.56
Approvals \$ bn								0.11	0.16	0.23	0.47	0.63
Avg Loan Book \$bn								0.73	0.76	0.87	1.03	1.32
Volumes Consolidated												
Settlements # ('000)	20.77	20.07	20.85	17.64	15.81	17.85	18.73	15.70	16.35	15.27	16.82	17.61
Settlements \$ bn	4.80	4.72	5.20	4.36	4.10	4.52	4.82	4.18	4.46	4.19	4.74	4.95
Approvals \$ bn	5.46	5.68	5.88	5.08	4.64	5.42	5.39	4.70	5.14	4.78	5.58	5.66
Market \$ bn	123.033	132.370	139.425	120.024	114.793	133.935	142.754	124.058	126.389	116.291	124.097	119.399
Market Share	4.4%	4.3%	4.2%	4.2%	4.0%	4.0%	3.8%	3.8%	4.1%	4.1%	4.5%	4.7%
Avg Loan Book \$bn	26.92	27.45	30.83	32.50	33.91	35.06	36.97	39.13	40.49	41.54	42.71	44.08

Notes:

⁴⁷ Market \$ based on ABS figures, 5609 table 11 (original series, "Total - All dwellings finance (\$'000)" excluding "Investment housing - Construction of dwellings for rent and resale") and 5609 table 8 "Total (State) Alterations and additions").

Appendix 2: Balance sheet

	2012 \$'000	2011 \$'000	Change (%)
Current assets			
Cash and cash equivalents	10,662	9,027	18%
Trade and other receivables	92,683	92,082	1%
Total current assets	103,345	101,109	2%
Non-current assets			
Receivables	221,801	208,262	7%
Property, plant and equipment	1,125	1,534	(27%)
Deferred tax assets	-	847	
Intangible assets	2,208	3,159	(30%)
Total non-current assets	225,134	213,802	5%
Total assets	328,479	314,911	4%
Current liabilities			
Trade and other payables	61,968	60,673	2%
Current tax liabilities	2,935	1,899	55%
Provisions	889	807	10%
Total current liabilities	65,792	63,379	4%
Non-current liabilities			
Trade and other payables	133,672	126,121	6%
Deferred tax liabilities	34,913	34,704	1%
Provisions	483	397	22%
Total non-current liabilities	169,068	161,222	5%
Total liabilities	234,860	224,601	5%
Net assets	93,619	90,310	4%
EQUITY			
Contributed equity	1,558	1,207	29%
Reserves	1,260	1,141	10%
Retained profits	90,801	87,962	3%
Total equity	93,619	90,310	4%

Appendix 3: Cash flow statement

	2012 \$'000	2011 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	130,037	123,653
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(117,437)</u>	<u>(111,377)</u>
	12,600	12,276
Interest received from trailing commissions	26,590	25,280
Interest paid on trailing commissions	<u>(16,040)</u>	<u>(15,681)</u>
Income taxes paid	<u>(6,129)</u>	<u>(7,580)</u>
Net cash inflow from operating activities	<u>17,021</u>	<u>14,295</u>
Cash flows from investing activities		
Payments for property, plant, equipment and intangibles	(382)	(934)
Proceeds from sale of property, plant and equipment	-	5
Interest received	<u>612</u>	<u>591</u>
Net cash inflow/(outflow) from investing activities	<u>230</u>	<u>(338)</u>
Cash flows from financing activities		
Dividends paid to company's shareholders	<u>(15,616)</u>	<u>(14,972)</u>
Net cash (outflow) from financing activities	<u>(15,616)</u>	<u>(14,972)</u>
Net increase/(decrease) in cash and cash equivalents	1,635	(1,015)
Cash and cash equivalents at the beginning of the financial year	<u>9,027</u>	<u>10,042</u>
Cash and cash equivalents at the end of year	<u>10,662</u>	<u>9,027</u>

This is an extract from our audited accounts

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For further information visit
www.mortgagechoice.com.au

or contact

Belinda Williamson – Head of Corporate Affairs

Ph: (02) 8907 0472 Email: belinda.williamson@mortgagechoice.com.au