Baillieu Holst
Since 1889

Goldfields Money (GMY)

COMPANY REPORT – INITIATION OF COVERAGE

RECOMMENDATIONS

Rating	**BUY ▲**
Risk	High
Price Target	**$1.90**
Share Price	$1.40

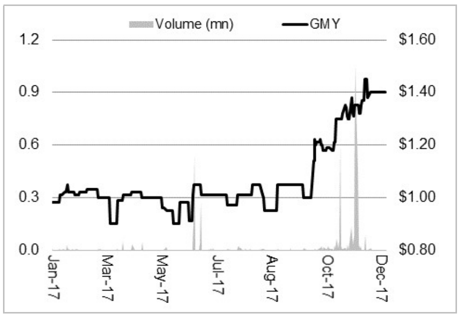
SNAPSHOT

Monthly Turnover	$0.9mn
Market Cap	$32mn
Shares Issued	22.5mn
52-Week High	$1.45
52-Week Low	$0.90
Sector	Financials

BUSINESS DESCRIPTION

Goldfields Money Limited (GMY) is an authorised deposit-taking Institution regulated by the Australian Prudential Regulation Authority (APRA). Formerly known as Goldfields Credit Union, the company has served the Goldfields region through its branches in Kalgoorlie and Esperance for 35 years.

12-MONTH PRICE & VOLUME



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Disclosure
The author owns no shares in GMY.

To be sure

- **Initiation of coverage:** We initiate coverage of GMY with a BUY call, High risk rating, DCF valuation of A$1.91 and price target of A$1.90.
- **History & the business:** GMY was established in 1982 when it was known as Goldfields Credit Union (GCU) and serviced the Western Australian gold producing areas of Kalgoorlie and Esperance. GCU demutualised, listed on the ASX in 2012 and changed its name to Goldfields Money Ltd. GMY is an authorised deposit taking institution (ADI) regulated by APRA. It provides a range of retail banking products and services to customers both through direct and broker channels. At end of FY17 it had gross loans of A$183.4m of which 88.5% were residential home loans secured by mortgage, with $157m on balance sheet and $26.4m fund in an off balance sheet facility.
- **The Finsure deal:** GMY and mortgage aggregator Finsure have entered into a Process Agreement with the view to a merger by way of GMY acquiring 100% of Finsure via the issuance of 40.75m GMY shares at an implied price of A$1.50 per share – this values Finsure's equity at A$61m. It is intended that the Process Agreement will soon lead to a Share Sale and Purchase Agreement.
- **Finsure history & business:** Finsure was founded in 2011 by John Kolenda and Calvin Ng who remain as Managing Director and Head of Group Strategy respectively. Mr Kolenda will become an Executive Director of GMY and was previously General Manager of Sales/Distribution for Aussie Home Loans. The core business was established as a B2B mortgage aggregator by becoming an intermediary between financial institutions providing mortgage loan products such as banks and a network of loan writers in Australia such as brokers. In FY14, Finsure acquired LoanKit, Homeloan.com.au and Comparehomeloans.com.au, with LoanKit becoming a B2B software as a service offering for participating loan writers to undertake electronic product comparison, CRM, business analytics, marketing services and electronic lodgements of mortgage loan applications. Finsure has recently diversified by acquiring three mortgage managers and consolidating them under one brand, Better Choice. Better Choice now manages approx. $1.5b of its own branded products manufactured internally but funded by other ADI's.
- **Investment attractions:** 1) a Finsure merger would transform GMY from a small regional mortgage based ADI to a national player in the mortgage aggregation market; 2) whilst GMY has enjoyed strong growth under the current management team, its scale remains insufficient to adequately leverage its cost base; and 3) Finsure estimates its current market of originating new home loans in Australia at roughly 3%, which is generated by its 1.2k+ accredited loan writers as well as 5.5k loan writers through Better Choice.
- **Investment risks:** 1) the merger with Finsure is not yet consummated; 2) a material slowdown in the domestic mortgage market; 3) material loss of brokers in the Finsure network; and 4) industry regulatory risks.

INVESTMENT SUMMARY

Year End: 30 June		2016 (A)	2017 (A)	2018 (E)	2019 (E)	2020 (E)
Revenue	$mn	4	4	15	35	40
Reported Profit	$mn	-0.1	-1.0	1.6	10.4	13.3
Adjusted Profit	$mn	-0.1	-1.0	1.6	10.4	13.3
EPS (Reported)	¢	-0.6	-5.1	3.8	16.5	21.0
EPS (Adjusted)	¢	-0.6	-5.1	3.8	16.5	21.0
EPS Growth	%	N/A	N/A	N/A	332.0	27.6
PER (Reported)	X	N/A	N/A	36.7	8.5	6.7
PER (Adjusted)	X	N/A	N/A	36.7	8.5	6.7
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Goldfields Money Ltd

Analyst:	Nick Caley	**Rating:**	**BUY**
Date:	03-January-2018	**Price Target:**	$1.90
Market Capitalisation A$m:	$32	**Valuation:**	$1.91
Share Price ($A):	$1.40	**Upside/(Downside):**	36%
Year End:	30 June	**Risk:**	High

PROFIT & LOSS (A$mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Banking Interest Revenue	6.7	6.5	7.4	8.3	9.4
Banking Interest Expense	3.6	3.8	4.4	4.8	5.4
Net Interest Revenue	**3.1**	**2.8**	**3.1**	**3.5**	**4.0**
Mortgage Aggregation Comm Inc.	0.0	0.0	46.7	209.7	232.8
Mortgage Aggregation Commission Exp	0.0	0.0	38.9	191.8	211.9
Net Mortgage Aggregation Inc.	**0.0**	**0.0**	**7.8**	**17.9**	**21.0**
Non Interest Revenue	0.5	1.5	4.4	14.1	15.5
Total Operating Income	**3.6**	**4.2**	**15.3**	**35.5**	**40.5**
Bad & Doubtful Debts Expense	0.1	0.3	0.3	0.3	0.3
Other Expenses	3.8	5.3	12.8	20.6	21.4
Non Bank Interest Expense	0.0	0.0	0.0	0.0	0.0
Net Profit Before Tax	**-0.2**	**-1.3**	**2.3**	**14.6**	**18.7**
Income Tax Expense/(Benefit)	-0.1	-0.3	0.6	4.2	5.4
Net Profit After Tax: Reported	**-0.1**	**-1.0**	**1.6**	**10.4**	**13.3**

BALANCE SHEET (A$mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Assets					
Cash	2.4	16.2	39.3	61.8	92.9
Due From Other Financial Institutions	14.5	26.9	26.9	26.9	26.9
Loans & Advances	128.8	157.0	179.8	205.8	235.7
Financial Assets	9.2	11.5	11.5	11.5	11.5
NPV of Trail Commissions	0.0	0.0	172.2	206.7	240.4
Other Assets	0.3	1.6	1.6	1.6	1.6
Current Tax Asset	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equipment	0.7	0.8	1.7	3.1	4.5
Intangibles	0.2	0.5	28.1	28.1	28.1
Deferred Tax Assets	0.3	0.6	0.6	0.6	0.6
Total Assets	**156.4**	**215.2**	**461.7**	**546.1**	**642.2**
Liabilities					
Deposits & Short Term Borrowings	138.7	194.1	216.9	242.9	272.8
NPV of Trail Commisions Payable	0.0	0.0	161.1	209.1	262.0
Payables & Other Liabilities	0.7	0.6	0.6	0.6	0.6
Provisions	0.2	0.2	0.2	0.2	0.2
Total Liabilities	**139.5**	**195.0**	**378.8**	**452.9**	**535.6**
Contributed Capital	15.7	19.8	80.8	80.8	80.8
Reserves	0.5	0.7	0.7	0.7	0.7
Retained Earnings	0.7	-0.3	1.3	11.8	25.1
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**16.9**	**20.2**	**82.8**	**93.3**	**106.6**

CASH FLOW (A$mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash at Start	**2.2**	**2.4**	**16.2**	**39.3**	**61.8**
Cash Flow from Operations	0.2	-1.7	4.3	23.9	32.5
Cash Flow From Investing	2.4	-44.2	-23.7	-27.5	-31.3
Cash Flow From Financing	-2.3	59.7	22.8	26.1	29.9
Net Cash Flow	**-2.3**	**59.7**	**22.8**	**26.1**	**29.9**
Other Adj	0.3	13.8	3.4	22.5	31.1
Cash At End	**2.4**	**16.2**	**39.3**	**61.8**	**92.9**

EARNINGS	FY16A	FY17A	FY18E	FY19E	FY20E
EPS - Bsic	-0.6	-5.1	3.8	16.5	21.0
EPS - Diluted	-0.6	-5.1	3.8	16.5	21.0
EPS Growth (%)	n/a	n/a	n/a	332%	28%
DPS	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0
Payout Ratio (%)	0%	0%	0%	0%	0%

VALUATION	FY16A	FY17A	FY18E	FY19E	FY20E
P/E (x)	-236.1	-27.6	36.7	8.5	6.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Price/Book (x)	1.5	1.6	1.1	0.9	0.8
Price/NTA (x)	1.5	1.6	1.6	1.4	1.1
Price/Cash/Flow per Share (x)	104.4	-16.0	13.9	3.7	2.7

Growth	FY16	FY17	FY18F	FY19F	FY20F
Total Operating Income Growth % pcp	8.2%	17.0%	261.1%	132.2%	14.0%
Op Expense Growth (ex-BDD) % pcp	17.0%	39.6%	141.3%	61.5%	4.0%
NPBT Growth (% pcp)	n/a	n/a	n/a	544.3%	28.0%
NPAT Growth (% pcp)	n/a	n/a	n/a	537.2%	27.6%

Returns	FY16	FY17	FY18F	FY19F	FY20F
ROIC %	0%	-4%	4%	12%	13%
ROE %	-1%	-6%	5%	12%	13%
ROA %	0%	-1%	1%	2%	2%

Banking	FY16	FY17	FY18F	FY19F	FY20F
Net Interest Margin % - Banking	1.75%	1.49%	1.68%	1.70%	1.70%
Cost To Income %	104.6%	124.9%	108.9%	97.7%	88.5%
Gross Loan Book A$m	129	157	180	206	236
Loan Growth % pcp	2.26%	22.12%	14.48%	14.49%	14.49%
Deposits/Loans %	108%	124%	121%	118%	116%
Total Capital Ratio %	20.9%	19.4%	18.3%	15.8%	14.0%

Mortgage Aggregation	FY16	FY17	FY18F	FY19F	FY20F
Revenue					
Origination Commissions	61.5	70.7	91.3	108.1	119.8
Trailing Commission Income	30.0	41.0	54.1	65.4	77.3
NPV of Future Trails	84.5	39.7	31.1	34.5	33.8
Other Income	0.8	1.2	1.4	1.7	2.0
Total Commission Income	**176.8**	**152.6**	**177.9**	**209.7**	**232.8**
Loan Book Size A$bn	18.3	25.8	31.3	37.6	43.7
Loan Writers	927	1213	1513	1713	1863
Origination Commissions/Loan Settlements %	0.61%	0.67%	0.67%	0.67%	0.67%
Trailing Commission Income/Average Loan Book %	0.19%	0.19%	0.19%	0.19%	0.19%

Investment case

- **Initiation of coverage:** We initiate coverage of Goldfields Money (GMY) with a BUY call, High risk rating, DCF valuation of A$1.91 and price target of A$1.90. GMY has signed a Process Agreement to merge with unlisted mortgage loan aggregator Finsure Holding Pty Ltd (Finsure) using scrip. GMY and Finsure intend to formalise a Merger Implementation Agreement in January 2018. The Finsure acquisition would be a transformational deal for GMY given the disparity in size of GMY and Finsure. Our investment view, forecasts and valuation are predicated on the basis that the transaction proceeds by end March 2017, subject to GMY shareholder approval and other conditions. We would review our assigned High risk rating upon approval of the merger.
- **Bull points:** 1) A merger with Finsure would transform GMY from a small regional mortgage based ADI, albeit with strong recent growth, to a national player in the mortgage aggregation market with access to distribution of 1.2k loan writers; 2) GMY has enjoyed strong growth under the current management team, although its scale remains insufficient to adequately leverage its cost base; 3) GMY recently recommended against accepting an on-market takeover bid from Firstmac Ltd (Firstmac) at A$1.27 per GMY share with the Independent Expert's report flowing from the Firstmac bid valuing GMY at A$1.27-A$1.39 per share – we view this as valuation support in addition to the Finsure merger being struck at an effective GMY share price of A$1.50; 4) Finsure estimates its current market of originating new home loans in Australia at roughly 3%, which is generated by its 1.2k+ accredited loan writers and 5.5k loan writers through its wholesale white-label brand Better Choice; and 5) GMY expects to be well placed to manufacture and distribute mortgages under the Better Choice label.
- **Investment risks:** 1) the transformational merger with Finsure is not consummated; 2) a material slowdown in the domestic mortgage market; 3) material loss of brokers in the Finsure network; and 4) regulatory risks in the mortgage aggregation and/or broking industry.

History & business summary

- **History:** GMY was established in 1982 when it was known as Goldfields Credit Union and serviced the Western Australian gold producing areas with branches in Kalgoorlie and Esperance. Goldfields Credit Union demutualised, listed on the ASX in 2012 and changed its name to Goldfields Money Ltd. GMY is an authorised deposit taking institution (ADI) regulated by APRA, and as such benefits from the Australian Government Deposit Guarantee Scheme.
- **The business:** GMY provides a range of retail banking products and services to customers, both through direct and broker channels. At FY17, it had gross loans of A$183.4m, of which 88.5% were residential home loans secured by mortgage. GMY predominantly funds its balance sheet through retail deposits. At FY17 91% of GMY's loan portfolio were sourced from the Western Australian market.
- **Firstmac takeover bid:** In FY15, GMY entered an arrangement with Firstmac Ltd (Firstmac) to distribute its term deposits. Firstmac and associated entities had previously acquired a 15% stake in GMY in 2013 which has since been diluted to its current level of 14.99%. Firstmac is a non-bank home loan lender/servicer and fund manager with A$9bn in mortgages under management. In October 2017, Firstmac launched an unsolicited on-market unconditional cash offer for 100% of GMY at A$1.12 per share (12% premium to pre-bid price) valuing GMY at A$25m. Prior to making the bid Firstmac received approval from the Federal Treasurer to move to 100% ownership of GMY subject to the success of its bid. In November 2017, Firstmac increased its cash offer to A$1.27 per GMY share, being at the bottom end of an Independent Expert's report which valued GMY in the range of A$1.27-$1.39 per share. In late November, GMY Directors announced it had entered into an agreement to merge with unlisted mortgage aggregator Finsure with an agreed issue price of A$1.50 per GMY share. GMY Directors voted to reject the Firstmac offer and proceed with the Finsure merger. In November 2017, Firstmac announced that it would not extend its takeover offer for GMY.

The proposed Finsure merger

- **The proposal:** GMY and mortgage aggregator Finsure have entered into a Process Agreement with the view to a merger by way of GMY acquiring 100% of Finsure via the issuance of 40.75m GMY shares at an implied price of A$1.50 per GMY share – this values Finsure equity at A$61m. It is intended that the Process Agreement will lead to a Share Sale and Purchase Agreement in early January 2018.
- **Finsure background:** Finsure was founded in 2011 by John Kolenda and Calvin Ng who remain as CEO and Head of Group Strategy respectively. Mr Kolenda will become an Executive Director of GMY and was previously General Manager of Sales and Distribution for Aussie Home Loans. The core business was established as a B2B mortgage aggregator by becoming an intermediary between financial institutions providing mortgage loan products such as banks and a network of loan writes in Australia such as brokers. In FY14, Finsure acquired LoanKit, Homeloan.com.au and Comparehomeloans.com.au, with LoanKit becoming a B2B software as a service offering for participating loan writers to undertake electronic product comparison, CRM, business analytics, marketing services and electronic lodgements of mortgage loan applications. Finsure has recently diversified by acquiring three mortgage managers and consolidating them under one brand Better Choice ("Wholesale Business"). Better Choice now manages approx. $1.5b of its own branded products manufactured internally but funded by other ADI's.
- **Finsure business:** FIG 1 provides a summary of Finsure's three revenue streams.
- **Aggregation Business:** This is Finsure's dominant revenue source – accounting for the bulk of its FY17 revenue – and is the only activity that generates trail commissions. Revenue is derived on the basis that when a loan is originated there is an upfront fee (typically averages 67bp) and a trail commission (typically averages 15bp per annum based on the loan amount) – loans typically have an average life of around four years. These fees are received by Finsure direct from the lender, then split between Finsure and the originating broker with Finsure receiving income in a range of 5% (upfront) & 5% (trail income) and up to 50% (upfront) & 50% (trail income) with the agreed share dependent upon the level of service provided by Finsure to the broker.
- **Wholesale Business:** Finsure manufactures mortgage loan products under the Better Choice and MyLoan brands, which are a white-label offering provided to 3rd party lenders. Finsure earns a 30bp revenue stream on loans manufactured on this basis. This presents an opportunity for GMY to grow its loan book by becoming a funder of the Finsure white label products.
- **SaaS Platform:** On a recurring revenue basis, Finsure provides CRM and Commission Management services to brokers including a range of modules such as CRM, compliance tools, sales tools etc.

FIG.1: FINSURE – BUSINESS OVERVIEW

Revenue Streams	
Aggregation Business	▪ Finsure's major business unit with core products in residential and commercial loans sourced from 35+ lenders ▪ Based on origination of new residential lending across Australia, Finsure accounted for ~2.9% market share in FY17, up from 2.5% in FY16 ▪ Aggregation historical book was ~A$24.3 billion as at 30 June 17
Wholesale Business	▪ Operates under the Better Choice and MyLoan brands ▪ White-labelling of loan products provided by 3rd party funders ▪ Key value drivers are increased loan portfolio value, additional diversified income and enhanced overall margins ▪ Wholesale loan portfolio was ~A$1.5 billion as at 30 June 17
SaaS platform 'LoanKit'	▪ Finsure's proprietary B2B software-as-a-service ("SaaS") platform offers product comparison and electronic lodgement, CRM, business analytics and marketing services for its loan writers ▪ Generates recurring monthly revenue from Finsure's existing loan writer network

Source: GMY/Finsure

- **Finsure deal rationale:** FIG 2 details the rationale for GMY and Finsure to merge.

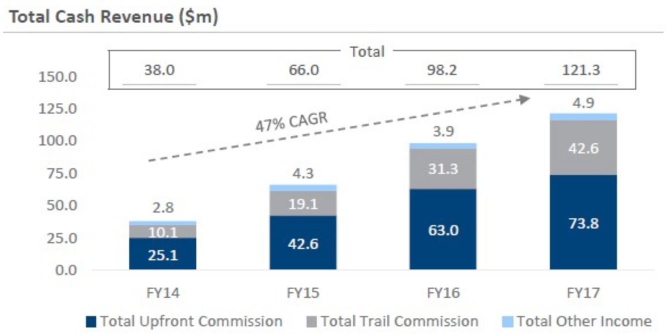
FIG.2: GMY/FINSURE MERGER RATIONALE

ALIGN DISTRIBUTION AND PRODUCT MANUFACTURING	▪ Finsure has in depth mortgage market knowledge and a significant distribution arm of 1,200+ accredited loan writers, plus access to a further ~5,500 loan writers through its Better Choice wholesale mortgage management products ▪ Increased profitability and broader product offering for Finsure's wholesale business ▪ Broadens geographical footprint to east and west coast ▪ Diversity of income streams through aggregation, wholesale product offerings and Finsure broker subscription fees
ACCESS TO LOWER COST FUNDING	▪ Goldfields Money's ADI license provides access to inexpensive funding for Better Choice's wholesale products ▪ Potential to capture margin on Better Choice's wholesale products ▪ Increased profitability which will assist with managing Goldfields Money's prudential capital requirements
OPERATIONAL SYNERGIES	▪ Alignment of technology and software infrastructure ▪ Management and administrative synergies including the integration of Finsure's credit assessment team ▪ Geographical expansion and coverage across Australia
ACHIEVE NEW MARKET STATUS	▪ Leveraging complimentary services and increasing scale with the aim of becoming a diversified financial services business with banking status ▪ Collective size is expected to provide better access to capital markets ▪ Increased equity exposure and liquidity from additional broker coverage and institutional investor interest

Source: GMY/Finsure

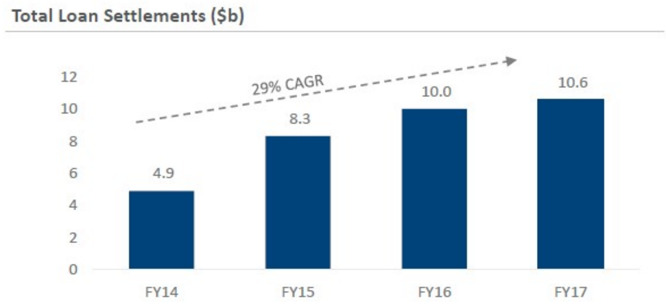
- **Finsure operating metrics:** FIGs 3-6 highlight the strong growth which Finsure has enjoyed over the last four years. Of particular note is the material growth in loan writers – Finsure does not charge upfront fees for brokers to join its network as opposed to some broking groups which commonly charge a franchise fee.

FIG.3: FINSURE CASH REVENUE



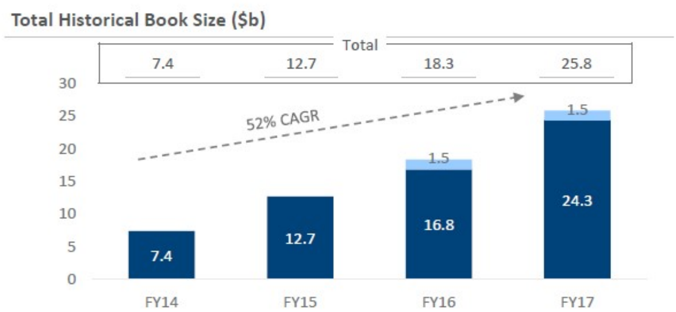
Source: GMY

FIG.4: FINSURE LOAN SETTLEMENTS



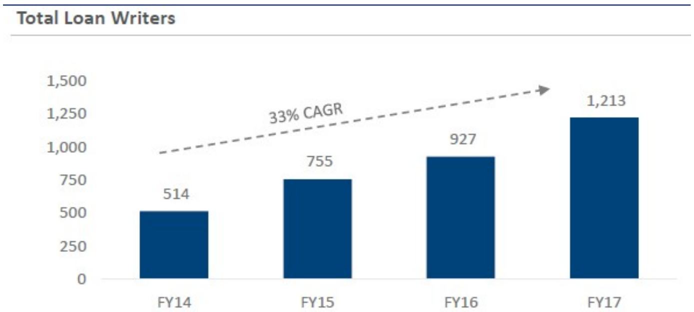
Source: GMY

FIG.5: FINSURE LOAN BOOK SIZE



Source: GMY

FIG.6: FINSURE LOAN WRITERS



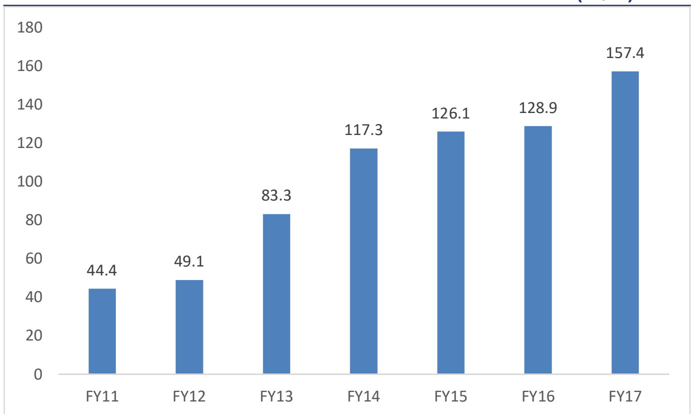
Source: GMY

- **Finsure financial position:** At FY17, Finsure had cash at bank of A$3.0m, senior debt of A$11.5m and convertible debt of A$13.5m – we understand the debt will be converted to equity upon the merger of GMY and Finsure.

GMY Business in Detail

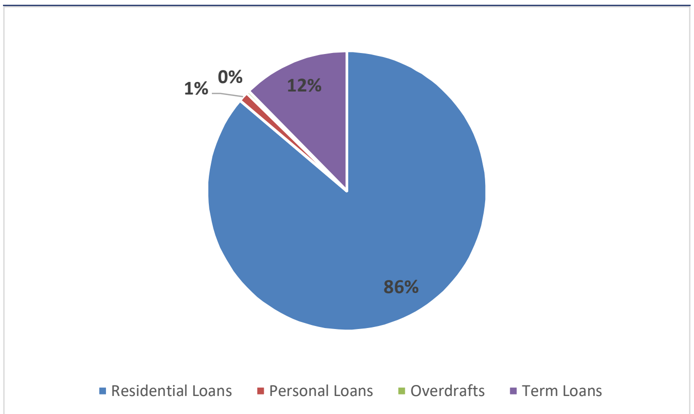
- **Loan book and growth:** GMY has increased its gross on balance sheet loan book by 254% in the period FY11-FY17 at a CAGR of 24%. Much of the acceleration in growth has come under the stewardship of the current CEO who was appointed in late 2015. The book is very typical of a regional ADI with it largely dominated by residential mortgages (86% of book at FY17) and commercial loans (12% of book at FY17) which are predominantly secured by first mortgage over real estate. Due to its origins, 91% of the loan book at FY17 was domiciled in Western Australia, although more recently brokers have been used to broaden GMY's exposure into the eastern seaboard. GMY's Western Australian exposure is largely concentrated around Perth, Kalgoorlie and Esperance, where it has branches. GMY provides home mortgage loans across the full spectrum of owner occupied, investment, principal and interest and interest only. It employs a maximum LVR of 95% although lenders mortgage insurance must be purchased where the LVR exceeds 80%. Whilst GMY provides business loans, it must be done against mortgage security. At FY17, GMY also had A$26m in off-balance sheet loans (not depicted in the chart below) which are funded by Bendigo and Adelaide Bank but are managed and branded by GMY.

FIG.7: GMY: GROSS ON BALANCE SHEET LOAN BOOK (A$M)



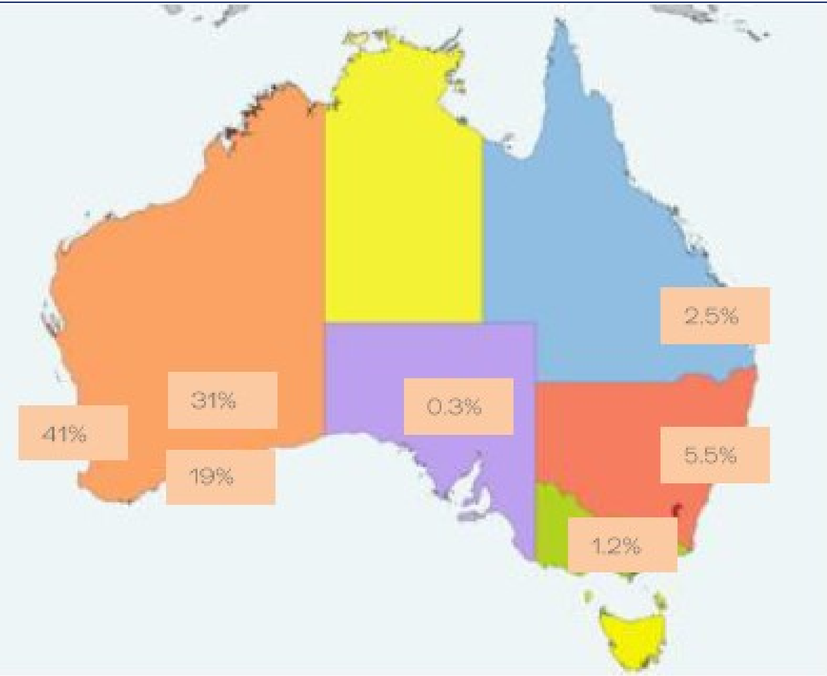
Source: GMY

FIG.8: GMY: GROSS ON BALANCE SHEET LOANS BY TYPE FY17



Source: GMY

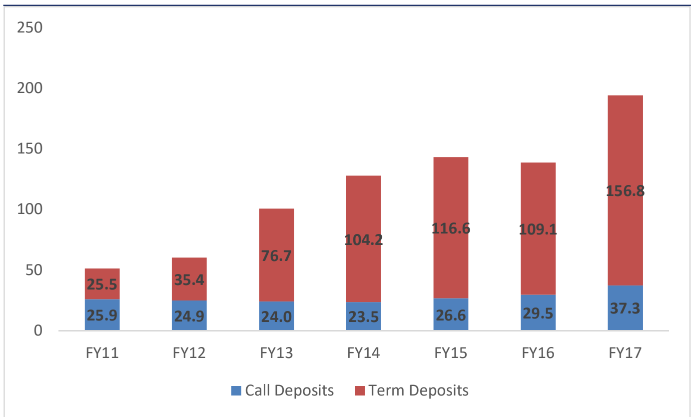
FIG.9: GMY – LOAN BOOK EXPOSURE BY GEOGRAPHY



Source: GMY

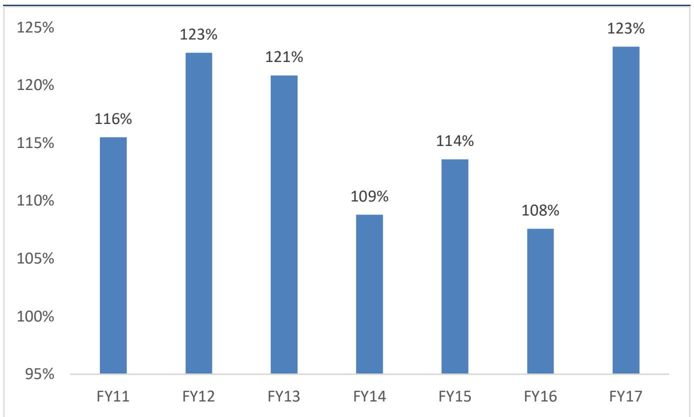
- **Funding profile:** Again, GMY's position as a regional ADI means that its on-balance sheet funding base is dominated by call deposits and term deposits.

FIG.10: GMY – RETAIL DEPOSIT GROWTH



Source: GMY

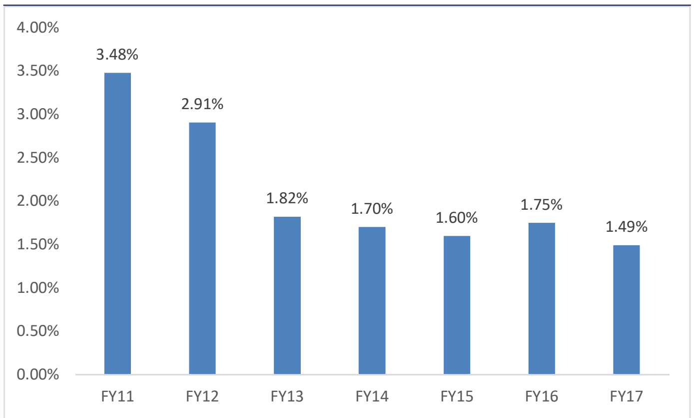
FIG.11: GMY – RETAIL DEPOITS/LOANS



Source: GMY

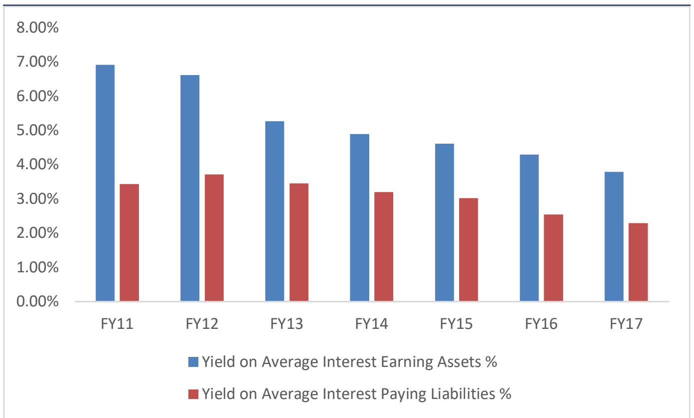
- **Net interest margins:** FIG 12 below shows GMY's net interest margin profile for the period FY11-FY17. What can be seen is that GMY has shed margin to grow at an above system rate in a competitive low interest rate lending environment. As can be seen, the steady margin contraction has been largely driven by the decline in interest rates not being matched by a like reduction in deposit funding costs due to competition. However, the recent material decline in net interest margin was driven by providing a A$30m liquidity facility for the ATM network of Stargroup, which results in GMY incurring funding costs with the corresponding fee revenue booked outside of the net interest margin calculation – this arrangement has since been scaled back, which we discuss later. FIGs 14 and 15 show the net interest margin profile for small listed banks Auswide Bank and MyState. Both have experienced a like trend to GMY in the contraction of margins over the same period. To grow its funding base GMY has entered into a number of distribution agreements and now participates in a number of rate comparison sites. Within the deposit base at FY17 are A$35m in term deposits branded as Firstmac which have been white labelled by GMY.

FIG.12: GMY – NET INTEREST MARGINS



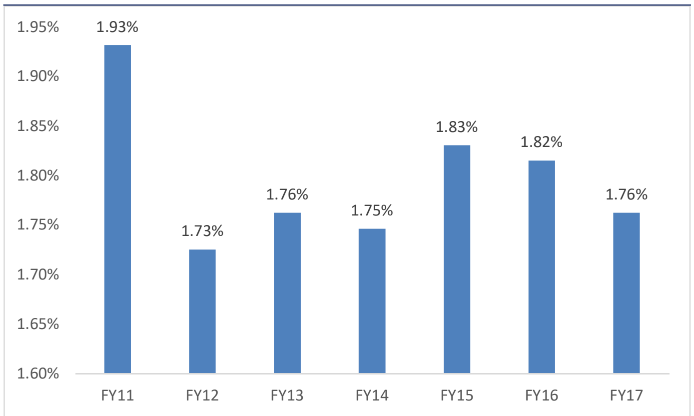
Source: GMY

FIG.13: GMY – INTEREST YIELD VERSUS FUNDING COSTS



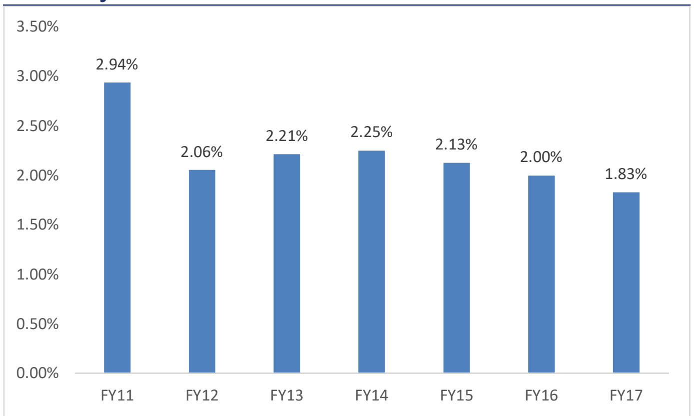
Source: GMY

FIG.14: AUSWIDE BANK – NET INTEREST MARGINS



Source: Auswide Bank

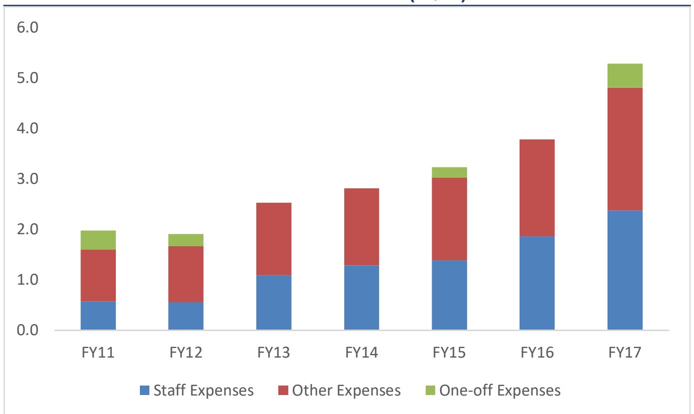
FIG.15: MySTATE – NET INTEREST MARGINS



Source: MyState

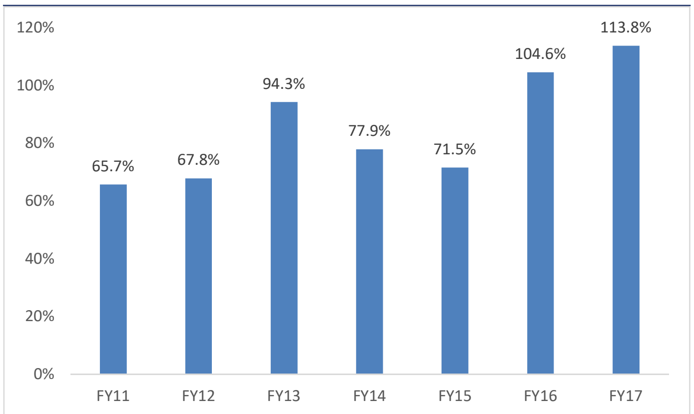
- **Expense profile:** FIGs 16 and 17 below show GMY's operating expense base and underlying cost to income ratio, which excludes one-off items. It is not uncommon for an ADI of GMY's asset base size to have a cost to income ratio of 90%+. The general trend is that the overall expense base has increased as GMY has transitioned from a mutual to listed entity. More recently the expense base has been inflated by re-branding initiatives and the launch of a new banking platform which has inflated project costs (all expensed). This project work was completed in 1H18. The flipside is that as per FIG 19 GMY has enjoyed a significant increase in non-interest income, which in more recent times has been fuelled by providing liquidity support for the ATM network managed by Stargroup.

FIG.16: GMY – OPERATING EXPENSES (A$m)



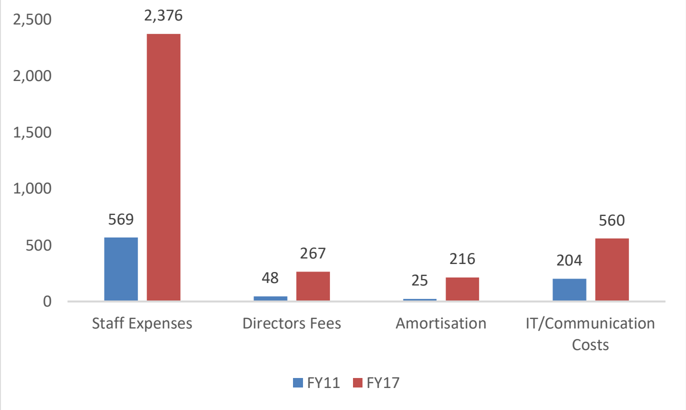
Source: GMY

FIG.17: GMY – UNDERLYING COST TO INCOME RATIO



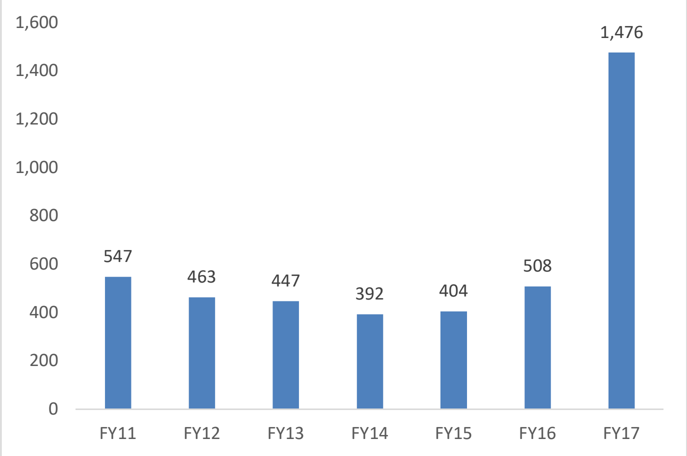
Source: GMY

FIG.18: GMY – OPERATING EXPENSE LINE ITEMS (A$000)



Source: GMY

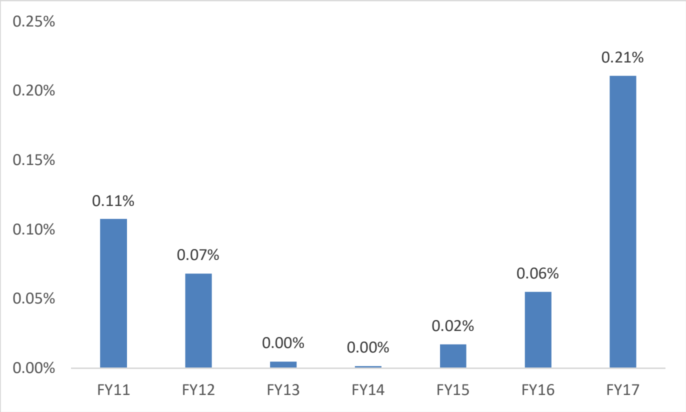
FIG.19: GMY – NON INTEREST INCOME



Source: GMY

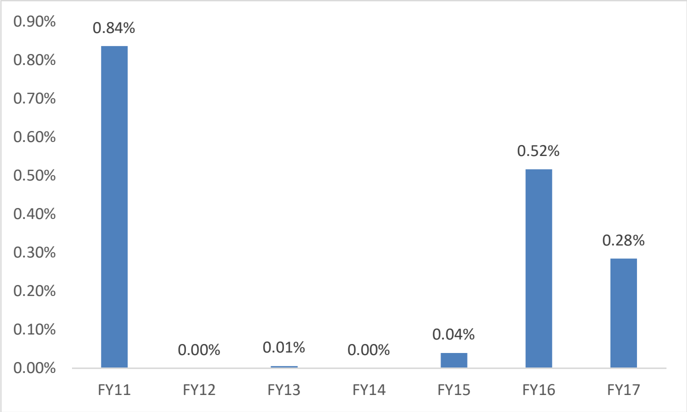
- **Asset quality and provisioning:** As per FIG 20 and FIG 21, GMY's history of impaired loan and bad debt write-offs has been nominal. Again, this is typical of a small ADI which largely concentrates on secured mortgage loans. At FY17, GMY held A$334k in loan loss provisions, of which A$234k was a general collective provision which has been recently introduced by the Board. GMY also holds a general reserve for losses as part of equity.

FIG.20: GMY - LOAN PROVISIONS/GROSS LOANS



Source: GMY

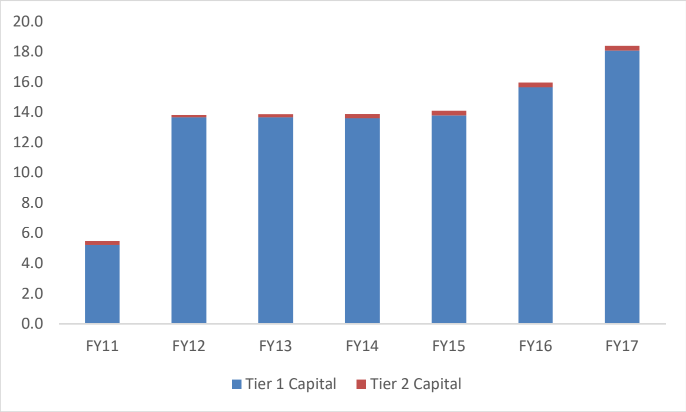
FIG.21: GMY - IMPAIRED LOANS/GROSS LOANS



Source: GMY

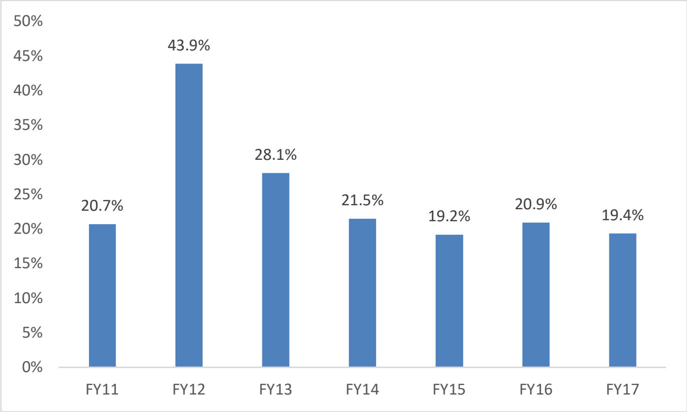
- **Capital adequacy:** At FY17, GMY had a strong capital adequacy ratio of 19.4% versus a Board target minimum of 18%.

FIG.22: GMY CAPITAL STRUCTURE



Source: GMY

FIG.23: GMY – CAPITAL RATIO %



Source: GMY

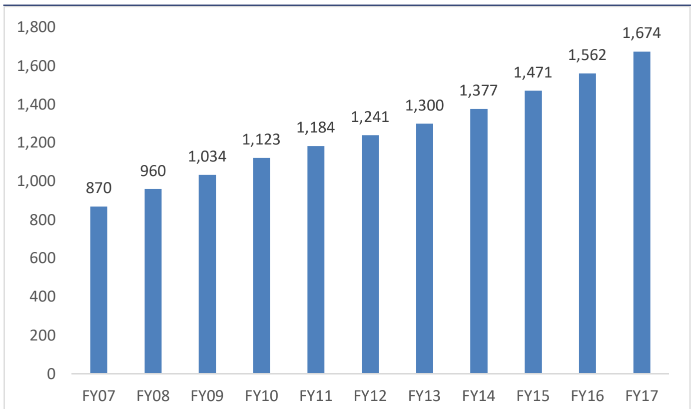
Strategic partnerships

- **Rubik/Temenos:** In late 2016 GMY announced the award of the build and delivery of a new core banking platform to domestic based fin-tech Rubik Financial (Rubik). Rubik was subsequently acquired by Temenos Group AG which assumed the GMY contract. Delivery of the new banking platform is expected to go live in February 2018.
- **Stargroup:** In September 2016 GMY signed an ATM Cash Convenience Agreement with ASX listed StarGroup Ltd (ASX:STL). The agreement provided for: 1) GMY to provide a three-year A$15m (subsequently increased to A$30m) liquidity accommodation under a bailment financing arrangement (so STL is not the borrower) for STL's national ATM network; and 2) STL to provide ATM's at lower costs for GMY to install ATM's in remote locations. In September 2017, a receiver and manager was appointed to STL which agreed with GMY to reduce the facility limit to A$10m but continue operations on a business as usual basis.
- **Pioneer Credit:** In April 2015, listed Australian debt collection company Pioneer Credit (ASX:PNC) acquired a 14% stake in GMY, which also came with Board representation. GMY and PNC subsequently signed a MOU to provide for: 1) the development of a debit card product issued by GMY for the PNC customer base; 2) the development of a credit card product for PNC customers which had repaid their obligations in full; 3) PNC to host systems for customer acquisition by MNY; and 4) leverage of PNC's development capabilities by GMY to reduce costs.

The industry

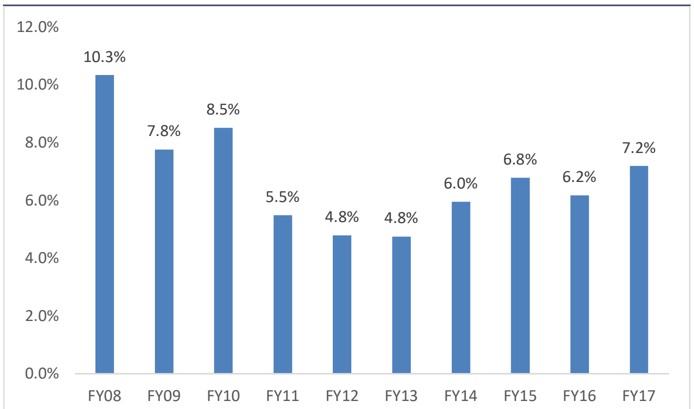
- **Relationship between aggregator and broker:** Aggregators have evolved from the mortgage broking industry. Mortgage aggregators evolved from mortgage brokers wanting access to lenders through their accreditations. This has since evolved further through the process of bulking loan volumes (or aggregating these volumes), with the aim of negotiating better lender commission and service levels from lenders. The model today is one where an aggregator offers access to brokers in addition to a range of support services e.g. software (loan comparison, loan lodgement, CRM management), training (lending, sales and compliance), management support, lead generation, branding and back office support.
- **The domestic mortgage market:** At end October 2017 the domestic mortgage market had A$1,707bn in loan outstandings with a 12 month growth rate of 7.0% notwithstanding that caps were imposed on interest only and investor loans during the period. Loan outstandings have grown at a 10-year CAGR of 7.4%. Loan settlements for the 12 months to October 2017 amount to A$397bn.

FIG.24: AUSTRALIAN MORTGAGE MARKET A$bn



Source: RBA

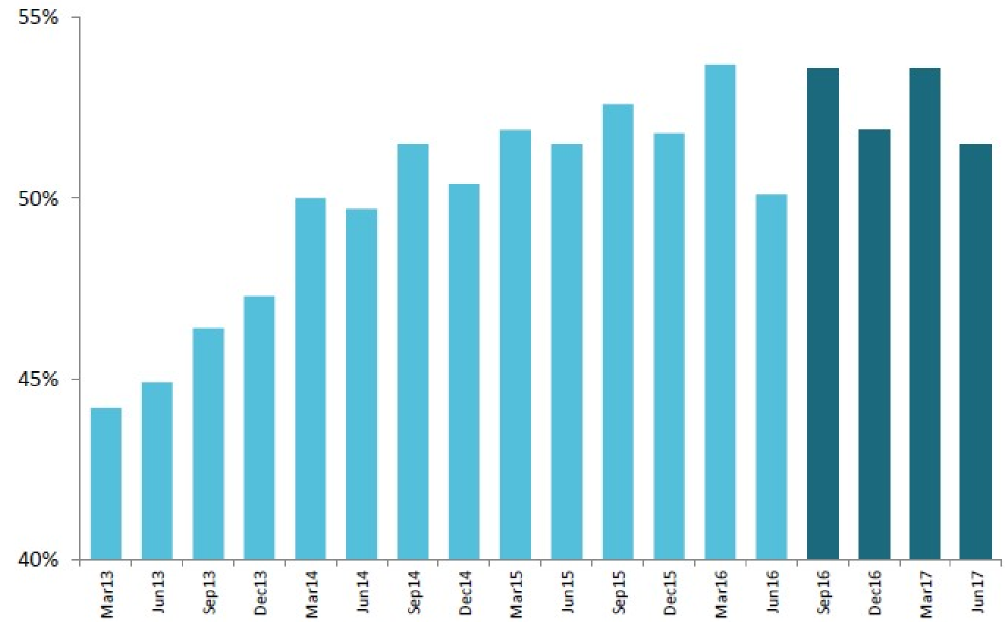
FIG.25: AUSTRALIAN MORTGAGE MARKET GROWTH



Source: RBA

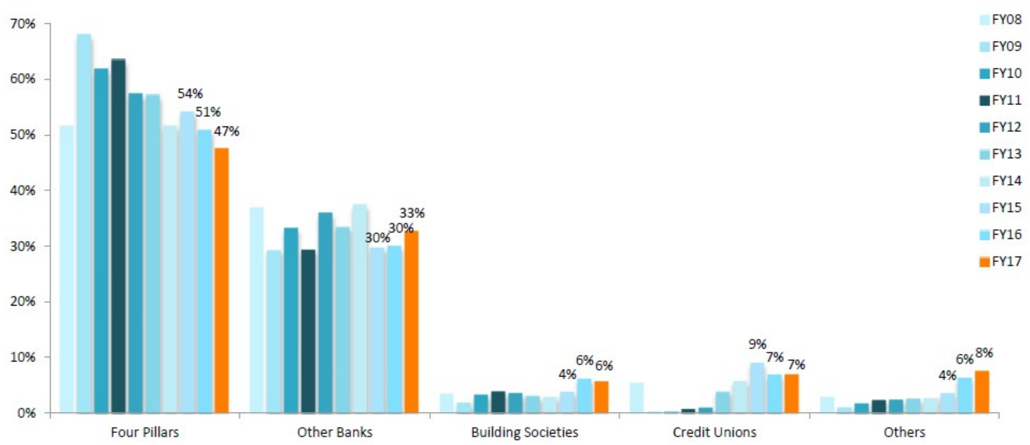
- **The broker market:** In excess of 50% of home loans in Australia are currently originated by brokers/aggregators. Pre the Global Financial Crisis, mortgage brokers accounted for about 45% of the home loan market in Australia. This fell to a low of around 35% post the GFC but has since recovered to current levels. Factors attributing to the growth in the broking market have been increasing product complexity, increased product breadth and rationalisation of branch based distribution.

FIG.26: AUSTRALIAN BROKER MARKET SHARE BY VALUE



Source: MFAA data

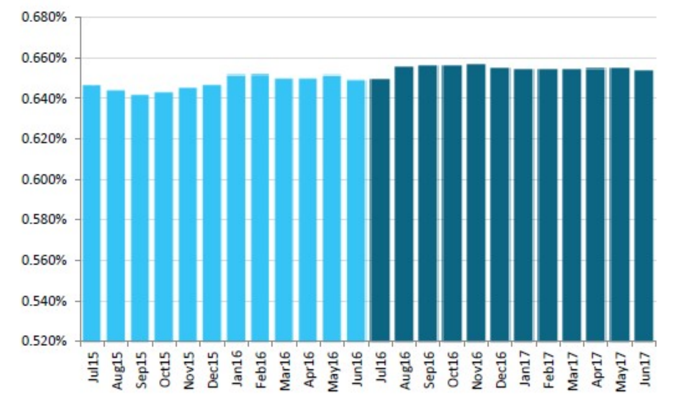
FIG.27: AUSTRALIAN BROKER MARKET SHARE BY VALUE



Source: MFAA data

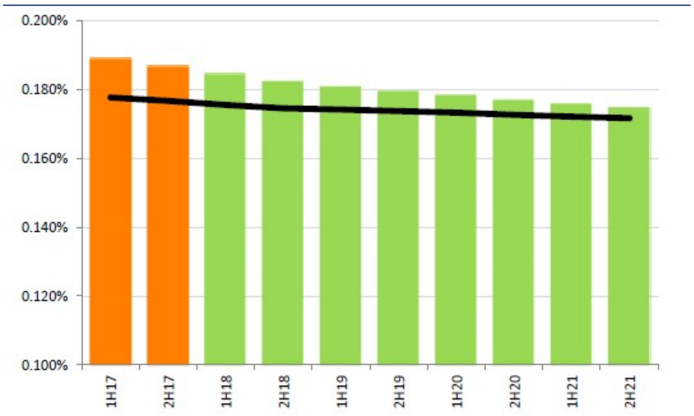
- **Brokerage rates:** Major bank up-front commission rates are reasonably generic with each bank prescribing a minimum and maximum commission rate depending upon range of criteria such as volume, loan amount, LVR etc. Minimum commission rates are standard in the market at 50bp whilst the maximum is typically around 70bp. Banks typically do not adjust the commission rates, with most changes usually occurring around the criteria used. Banks sometimes have "special" periods in terms of higher commissions if they are trying to drive growth. Trails last for the life of the loan and typically scale up to 20bp. Clawbacks typically apply if the loan is refinanced within the first two years.

FIG.28: MORTGAGE CHOICE – COMMISSION RATES



Source: Mortgage Choice

FIG.29: MORTGAGE CHOICE TRAIL COMMISSION RATES



Source: Mortgage Choice

- **Regulatory landscape:** In Australia, the mortgage broking industry is primarily regulated by the Australian Securities & Investment Commission (ASIC) and under the National Consumer Credit Protection Act (NCCP). The NCCP regulates the activities of persons who engage in credit activities including providing credit assistance to a consumer and acting as an intermediary (which includes providing wholesale mortgage broker services). Mortgage Brokers must hold either an Australian Credit License (ACL) or be a credit representative of a licensee (aggregator). Mortgage aggregators, dealer groups and even franchise groups act as a wholesaler between lenders and mortgage brokers. Many brokers operate under the Australian credit licence of an aggregator, rather than holding their own licence. In such cases, the aggregator is responsible for the conduct of the broker under the National Consumer Credit Protection Act 2009 (National Credit Act).
- **ASIC Industry Review:** As part of the response to the Financial System Inquiry (FSI), Improving Australia's Financial System 2015, the Federal Government requested ASIC undertake an industry-wide review of mortgage broker remuneration. In March 2017, the Federal Government released ASIC's review of the industry. Our general view is that the review is relatively benign for Finsure on the basis that it recognised the importance of both brokers and aggregators in the mortgage lending industry. The review also supported existing fixed commission structures over volume based commissions and/or soft dollar incentives.

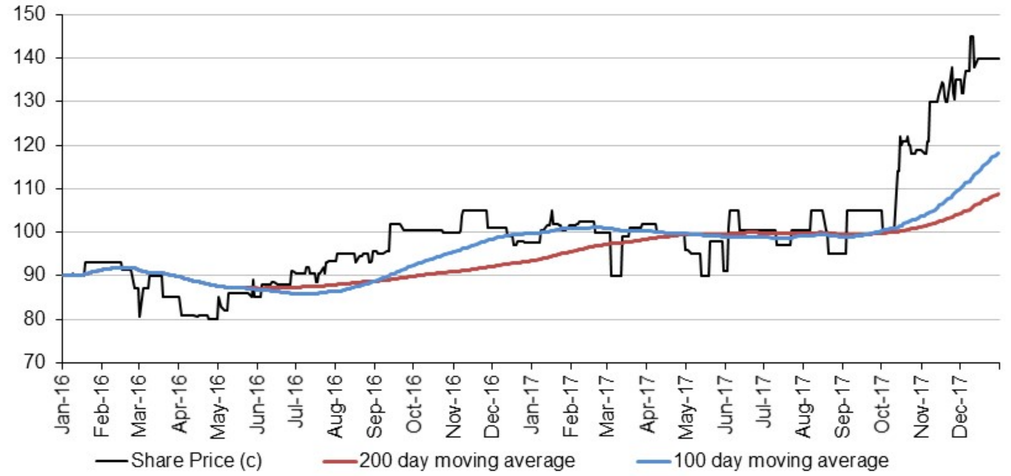
FIG.30: GMY BOARD OF DIRECTORS

Board of Directors			
Peter Wallace	Non-executive Chairman	Appointed August 2014	Mr Wallace has served as a Director since August 2014 and was elected Chairman in October 2015.Prior to his retirement in 2007, Mr Wallace was the Head of Corporate (Western Australia) for Bell Potter Securities Ltd, Australia's largest retail broking house. He has directed capital raising for several large publicly listed companies as well as provided a variety of corporate advisory services to a wide range of companies, both private and publicly owned. Over the past 25 years he has also held executive management positions with Westpac Banking Corporation, Challenge Bank Ltd and National Australia Bank Ltd. Mr Wallace has considerable public company experience having held directorships previously with RuralAus Investments Ltd, Tethyan Copper Ltd,and Decmil Engineering Ltd. He is currently a director of Neptune Marine Services Limited and Katana Investments Limited. He is a Senior Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and an Associate Fellow of the Australian Institute of Management. Mr Wallace is Chair of the Remuneration Committee and a member of the Credit Committee.
Derek La Ferla	Non-executive Director and Deputy Chairman	Appointed November 2015	Director, he has held senior positions with some of Australia's leading law firms. Currently, Mr La Ferla is a Partner with Western Australian firm, Lavan Legal, in the firm's Corporate Advisory Group (which includes mining and resources). Mr La Ferla is a member of the firm's Advisory Board and previously served on the Norton Rose Australia National Board (while the firm was known as Deacons) and he also serves as the Chairman of OTOC Limited, Sandfire Limited, Cashmere Iron Limited and Threat Protect Australia Limited. Previously a Director of the listed company, Katana Capital Limited, Mr La Ferla is a Fellow of the Australian Institute of Company Directors and a member of the AICD Council (WA Division). Mr La Ferla is Chair of the Audit Committee and is also a member of the Risk & Compliance and Remuneration Committees.
Peter Hall	Non--executive Director	Appointed November 2015	Mr Hall was elected as a Director in November 2015 and is an experienced financial services industry professional. Previous Board and industry appointments include: Non Executive Director of BLSSA Pty Ltd (the licensing Board for Advantedge Financial Services, a NAB subsidiary), Chair of the CoreLogic RP Data sponsored Residential Valuation Industry Advisory Group, Ministerial Advisory Board Member for NSW Housing Minister and Chairman and Council Member of the Lenders Mortgage Insurance sub-committee. Mr Hall has also held the senior executive position of Country Executive of Genworth Financial Aust. & NZ and Managing Director of Genworth Financial Mortgage Insurance Aust. & NZ. Mr Hall holds a Graduate Diploma of Management, has completed Executive Management Programs at GE's global management college, is a Fellow of the Australian Institute of Company Directors, an Associate Fellow of the Australian Institute of Management, a Senior Associate of the Financial Services Institute of Australia and has received a Distinguished Service Award from the Australian Securitisation Forum. Mr Hall is the Chair of the Risk & Compliance Committee and is also a member of the Audit Committee and Credit Committee.
Keith John	Non--executive Director	Appointed 1 May 2014	Keith John is the Founder and Managing Director of ASX listed financial services provider Pioneer Credit Limited (ASX: PNC) and has over 20 years experience in the receivables management industry. Developing innovative ideas and solutions - Keith was the first non-national to open a receivables management business in Malaysia in 1999, and has received numerous awards in recognition of his business achievements and acumen. These include in 2006 recognition of Pioneer Credit in the BRW Fast 200 at number 26, an award which showcased Australia's fastest growing businesses. Keith was also acknowledged as a winner of the WABN '40 Under 40' Award which recognises Western Australia's young business leaders. Keith has a strong interest in philanthropy and through his business and directorships supports numerous charitable organisations across Australia. He is a former director of ACA International Inc (the US based representative body of the receivables management industry worldwide) and TCM Group International Inc (the largest independent network of affiliated agents in the world). Keith is a Director of the peak industry body of the Debt Purchase Industry in Australia, Australian Collectors & Debt Buyers Association Limited, of Midbridge Investments Pty Ltd and Box International Pty Ltd, publisher of the leading Australian luxury magazine 'Box Magazine'. Mr John is a member of the Risk & Compliance Committee and Remuneration Committee.
Simon Lyons	Chief Executive Officer/Executiv e Director	Appointed 6 January 2015	Simon is an ex Army officer, but has been involved in the day to day management of financial services businesses for the last 20 years. He began his business career at Porter Western Limited as a stockbroker in 1994 and was a Director and shareholder of Porter Western when the business was sold to Macquarie Bank in 1999. With the business under new ownership, Simon became the State Manager for Macquarie Bank in Perth where he was promoted to Division Director for Macquarie and transferred to a national role as Head of Broking (Distribution and Development), largely based out of Sydney. In 2005 Simon became the Head of Macquarie Private Wealth - Asia and spent several years working in Asia and India establishing or acquiring wealth management businesses for Macquarie Bank. Since leaving Macquarie Bank in 2008, Simon has established and managed wealth management businesses to service clients looking for stockbroking or fixed income investments (bonds and term deposits). Simon is committed to building upon Goldfields Money's terrific reputation for service, growing the business to become a leading provider of banking and financial services for Western Australian clients.
Malcolm Cowell	Chief Financial Officer and Company Secretary	Appointed 13 March 2015	Malcolm was a former Audit Director at KPMG in Perth and has extensive experience across a number of industries over a long career which includes working as a credit analyst for the Commonwealth Bank. Malcolm was appointed CFO and Company Secretary in February 2017. He has acted as an auditor to companies listed on the ASX and the Toronto Stock Exchange. Malcolm has successfully delivered several advisory engagements, which includecredit risk reviews, regulator prudential review preparation, internal control effectiveness, unit pricing, IT system implementation project governance, accounting advice and transaction support. His experience spans financial statement audits and regulatory audits.

Source: MFAA data

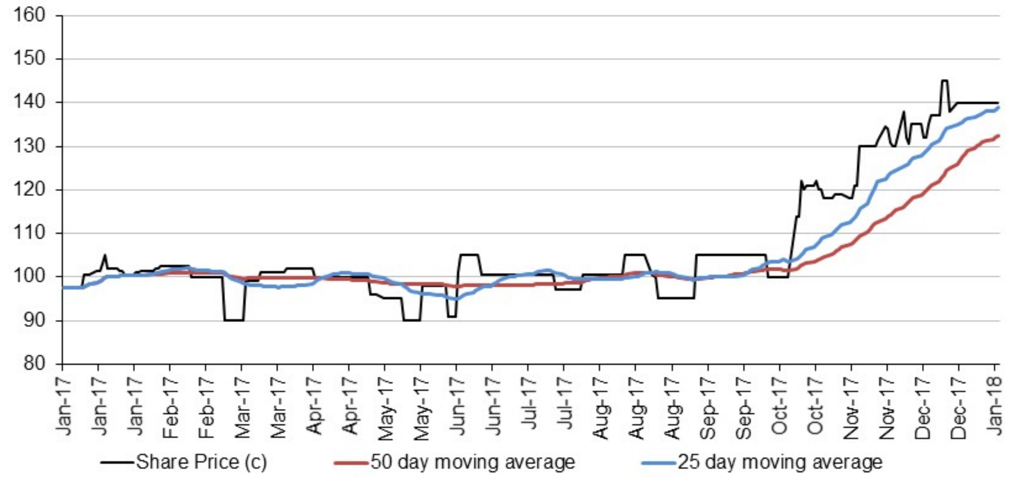
Appendix

FIG.31: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.32: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Hold: The stock's total return is expected to trade within a range of ±10-15 percent from the current share price over the next 12 months.

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