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PROPOSED CHANGES TO THE FINANCIAL SERVICES INDUSTRY, SMSF's & SUPERANNUATION
BUSINESS AS USUAL

Recently there has been a series of changes proposed for the Financial Services Industry announced by the Minister for Financial Services, Superannuation, Corporate Law & Minister for Human Services, The Honourable Chris Bowen MP (Mr Bowen), titled the 'Future of Financial Advice'.

Based on an initial review of the proposed changes by Mr Bowen, which will still need to be legislated, Prime Financial Group Ltd (Prime) expects that these proposed changes will not materially impact our collective group. Prime's business model has, and continues to be structured / positioned, to deliver financial services where clients make direct payment to Prime for those services, not as a commission.

Accordingly, there are no substantial changes that Prime will need to make to our current business model, the business is well positioned to continue to increase the level of service we provide to clients, utilising our competitive fee structure, and thereby maximising the benefits that will be available from the proposed reforms.

Set out below is our preliminary perspective on some of the key reforms proposed by Mr Bowen:

- The changes will be a positive for our industry and should encourage more clients to have the confidence to seek advice from qualified advisers. In particular independently owned financial & investment advisory firms, like Prime, are very well positioned and hence we are supportive of the proposed changes
- On the whole we see these changes being a positive for our 'value proposition' for clients, which is around;
 - Independence from product manufacturers,
 - Direct investment in equities,
 - A fee structure where the client pays Prime for the service and advice we provide (not a commission from others), and
 - A team based service model, which focuses on having a team of advisers available to speak with clients so that ongoing service is provided in a continuous manner
- We are already structured to support the changes proposed by having reduced the use of;
 - Intermediaries (WRAP's / Master Trusts & Managed Funds), preferring
 - A more cost effective (for clients) and direct relationship with clients utilising direct equities
- In terms of how we are paid by clients, under our direct advisory model, which accounts for approximately 80% of our Funds Under Management (FUM) (Total FUM at 31/12/09 was around \$1.085B), we are paid by clients, not as a commission from a fund manager, accordingly there should be no substantial change to our current operating structure
- Our fee structure for ongoing service (including ongoing advisory fees) via our direct equities advisory model, which accounts for over 90% of new FUM flows, is approximately 40% - 50% of the ongoing cost for clients when compared with the majority of the Financial Planning industry who utilise intermediaries (WRAP's / Master Trusts & Managed Funds) - Prime has a very competitive position in comparison to our competitors
- Very few of our clients have margin lending, only around 1% - 2% of our client base

- Within our group we have approximately 4,500 Self Managed Super Fund's (SMSF's) and we will continue to support our Accounting Firm network and investees to actively participate in the growth of this sector of the market and deliver 'integrated' financial & accounting advice to our collective SMSF client base

Separate to the changes proposed by Mr Bowen, and as part of the Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, the Phase Three Preliminary Report titled, 'Self Managed Super Solutions' was released by Mr Jeremy Cooper last week.

As part of the report no substantial changes were announced that would materially affect Prime's goal of continuing to grow and be a significant service provider in the fragmented SMSF sector, which is one of the fastest growing areas of Superannuation. In fact it was comforting and encouraging that the report highlighted elevating Financial Advisers role to that of 'gatekeeper' for Trustees in the SMSF sector, this will no doubt present opportunities for Prime.

Finally, the well-publicised Henry Review was delivered on Sunday 2 May and the proposed changes, as they affect Prime and our clients, were positive. The government has estimated that the proposed changes will increase personal savings levels by \$85 Billion over the next ten years. Without going into all of the specifics, most notably:

- The Superannuation Levy will rise progressively from 9% to 12% from 2013 / 14 to 2019 / 20
- The Superannuation Guarantee age limit will be increased from 70 - 75 from 1 July 2013
- The \$50,000 tax-concessional contributions cap will continue permanently beyond 1 July 2012, albeit for clients 50 and over with less than \$500,000 in Superannuation
- Low income earners will receive an automatic super contribution of up to \$500 annually, paid by the government

As stated earlier, based on the information released and changes proposed, there are no substantial changes that Prime will need to make to our current business model. Prime is well positioned to continue to increase the level of service we provide to clients, utilising our competitive fee structure and thereby maximising the benefits that will be available from the proposed reforms.

For further questions or queries please contact Simon Madder (Managing Director / CEO) on 03 9827 6999.

Prime

Prime is a National Financial Services & Advisory Group providing Financial Planning, Self Managed Superannuation and Accounting Services.