Mortgage Choice

2019 Annual Report

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WITH YOU EVERY STEP OF

Our commitment to help more Australians make better choices for a better life drives everything we do.

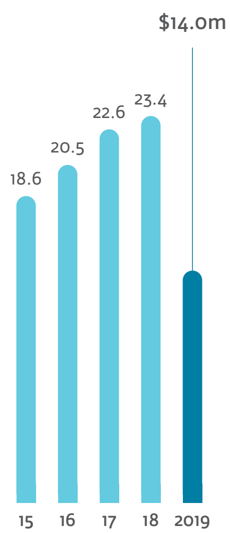
27.5k+
home loans written in FY19

Across **28** **lenders**

FY2019 was a landmark year for Mortgage Choice, making substantial leaps forward in how we equip our franchisee network to best serve their customers.

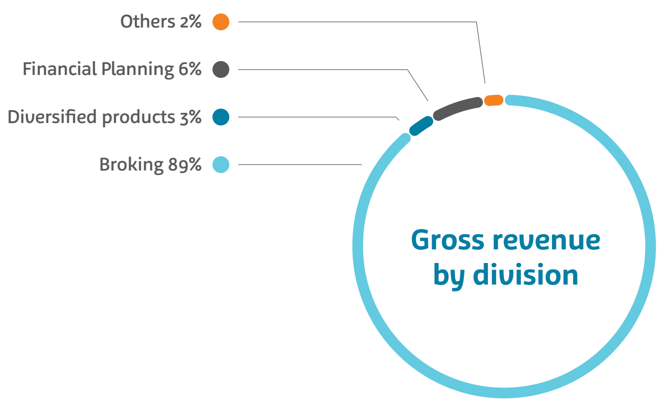
Against the backdrop of a challenging property and mortgage market and significant regulatory scrutiny, the Company made considerable improvements to its mortgage broker and financial adviser offerings to build a platform for long-term sustainable growth.

These investments have given the Company a competitive advantage, strengthening the overall customer experience and advocacy for the brand.



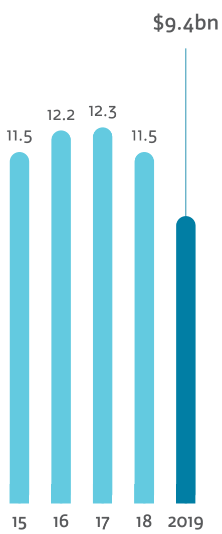
NPAT Cash
$m

THE WAY



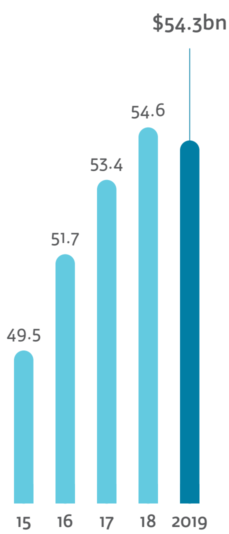
$54.3bn

Loan book in FY19



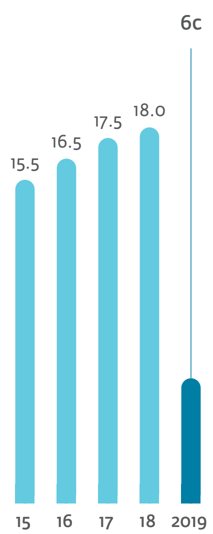
Total settlements

$bn



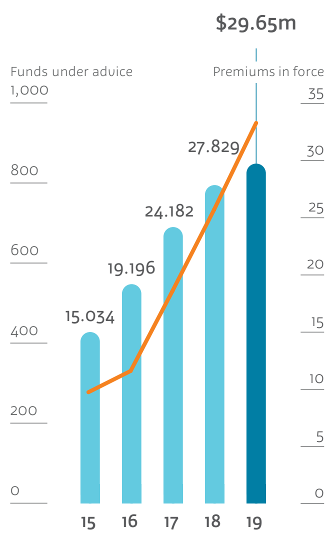
Loan book

$bn



Total dividends

Cents



Funds under advice and Premiums in force

$m

Chairmans Report

"A thriving professional broker channel is essential so that all Australian consumers can continue to experience real choice and access to credit."

Vicki Allen, Chairman

Nov 2015
Government announces ASIC Review into Mortgage Broker Remuneration

Mar 2017
ASIC releases findings and recommendations with focus on changes to broker remuneration structure

Mar 2017
APRA introduces Macro-Prudential controls including caps on interest-only lending

Jan 2018
FINANCIAL PLANNING INDUSTRY ONLY
Life Insurance Remuneration Reforms commence

Feb 2018
Royal Commission commences

May 2018
APRA directed lender credit policy tightening

The past year was one dominated by scrutiny of the financial services sector by government, regulators and the media. In addition, the broking sector was impacted by tightened lending policies and a slowing property market across Australia.

Uncertain business environment

The past year was one dominated by scrutiny of the financial services sector by government, regulators and the media. In addition, the broking sector was impacted by tightened lending policies and a slowing property market across Australia.

The scrutiny prevailed through the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission). The Royal Commission recommended significant changes to broker remuneration structures, which created much uncertainty for the broking sector. However, both sides of parliament acknowledged the important role mortgage brokers play in driving competition in the home lending market. Consequently, the current remuneration model, which delivers brokers an upfront and trail commission on settled residential mortgages, will be retained for the next three years. Treasury will then review the broker remuneration structure.

We will continue to work with regulators, industry and government to ensure Mortgage Choice brokers and financial advisers provide professional support and advice for our customers within a sound governance framework.

Important role of mortgage brokers

Over the past year a record share of Australians turned to a mortgage broker. In uncertain times, borrowers value the choice and support of a professional broker. We are committed to enabling competition in the home lending market. A thriving professional broker channel is essential so that all Australian consumers can continue to experience real choice and access to credit.

Strong leadership

Last year we welcomed Susan Mitchell as the Chief Executive Officer of Mortgage Choice. In her first full year, Susan delivered a new online broker platform as well as enhanced software for our financial advisers. Both were designed to provide a better customer, broker and adviser experience, as well as deal with the increasing compliance requirements for both lending and advice through more efficient tools and processes. She remains highly committed to evolve and strengthen the business within the new lending landscape.

Board Renewal

Our ongoing board renewal continued this year and in February 2019 Dharmendra (Dharma) Chandran was appointed to the Mortgage Choice Board. Dharma is an experienced non-executive director and brings a deep understanding of the financial services industry and franchising, as well as a track record in transformational business and cultural change.

Steve Jermyn retired as a director of the Company in June 2019. Steve joined the Mortgage Choice Board in May 2004 and made a significant contribution to Mortgage Choice during that time. Steve chaired the Audit Committee for most of his tenure and his financial nous and franchising experience was invaluable. On behalf of my fellow Board members, I would like to thank Steve for his commitment to the success of Mortgage Choice over the last 15 years. We wish him well for the future.

Dividends

The Board has resolved to pay a final ordinary dividend of 3 cents per share. This results in a total ordinary dividend payment for the year ended 30 June 2019 of 6 cents per share.

On behalf of the board, I would like to thank our staff and franchisees for their commitment and efforts over the past year and thank our shareholders for your continued support.

Vicki Allen
Chairman

Jun 2018
Productivity Commission releases final report on Competition in the Australian Financial System, which is consistent with findings and recommendations in ASIC Report

Sep 2018
Royal Commission releases Interim Report

Dec 2018
APRA softens Macro Prudential controls including those on interest-only lending

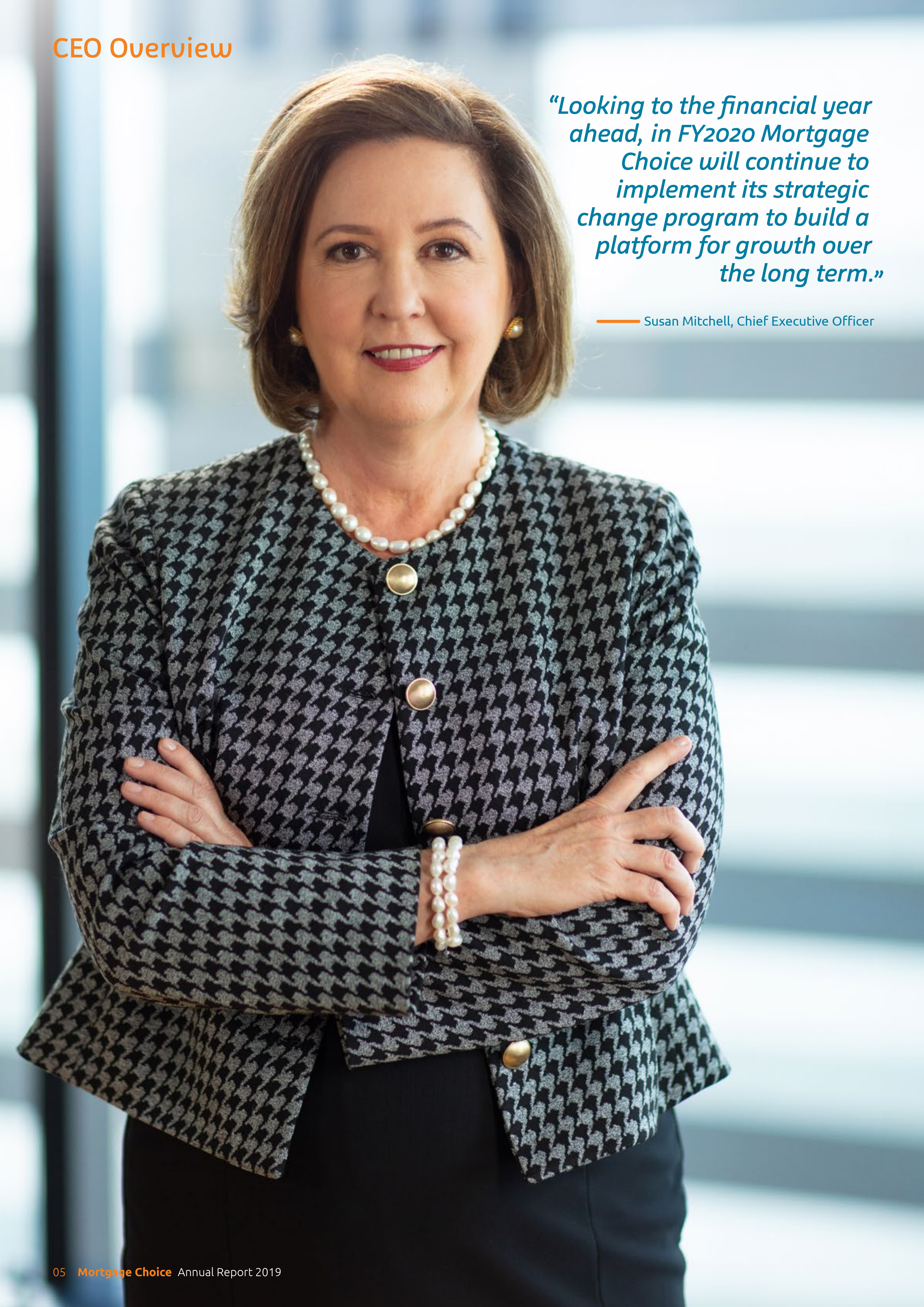
Jan 2019
FINANCIAL PLANNING INDUSTRY ONLY
Higher educational requirements commence under FASEA for new financial advisers

Feb 2019
Royal Commission releases final report and findings

Feb 2019
Industry rolls out consumer campaign to highlight importance of brokers to competition

May 2019
Australian Federation Election

CEO Overview



"Looking to the financial year ahead, in FY2020 Mortgage Choice will continue to implement its strategic change program to build a platform for growth over the long term."

— Susan Mitchell, Chief Executive Officer

The most pleasing outcome of this difficult year is the undisputed value of the mortgage broker industry, which received the strongest vote of confidence yet from borrowers, lenders and the Australian Government.

Following a tumultuous year for the financial services industry, Mortgage Choice continued to excel in helping Australians with their evolving financial needs by delivering a range of financial choices teamed with trusted expert advice.

The most pleasing outcome of this difficult year is the undisputed value of the mortgage broker industry, which received the strongest vote of confidence yet from borrowers, lenders and the Australian Government.

Before I discuss Company performance and achievements over the past 12 months and look ahead to the goals for the coming year, I'd first like to review the challenging economic and regulatory environment the business faced in FY2019.

Tightened lending environment and falling property prices

Over the course of the year lenders tightened their lending policies and increased the level of information required on home loan applications in response to heightened scrutiny by APRA in parallel with the Royal Commission inquiry. As a result, in FY2019, home loan applications took longer to complete and people borrowed less money. This had a flow-on effect on prices and lending volumes, with lending volumes reaching their lowest point in 5 years.

Impact of Royal Commission

At the half-year, ABS housing and finance approval volumes were impacted by the slowing property and home loan markets with a 9.7% decline in approvals in comparison to the same period in the previous year (1H2018) [1]. These volumes were further impacted in the second half by a significant level of uncertainty regarding the impact of the Banking Royal Commission recommendations. In the second half we saw a further 8.9% drop on the first half, resulting in a full year reduction of 12.9%.

Impact of election result

The election result in May 2019 has shifted the economic outlook for property. Proposed tax changes affecting property, specifically to negative gearing and capital gains tax, are now off the table. Interest rates have moved to further historical lows and the trajectory of the fall in property prices in both Melbourne and Sydney has levelled out. The signs all point to a recovery in lending volumes. It remains to be seen how these early signals are translated into strong market statistics.

Royal Commission – impact on remuneration

As part of this inquiry, broker remuneration and conduct was scrutinised and the Commissioner made two key recommendations. The first related to changes to trail commission structures which post-election will not be implemented by the Government. The current structures are to be retained with a review to be undertaken by Treasury in three years time. The second recommendation related to the introduction of new governance frameworks ensuring customer's best interests are at the forefront of brokers' minds in each transaction.

We have over 25 years of doing the right thing by our customers. In a period where conflicted remuneration is subject to the scrutiny of regulators and a Royal Commission, Mortgage Choice's history of its 'paid the same' commission structure gives customers confidence that our brokers are putting their clients' interests ahead of their own.

There were also a number of recommendations by the Royal Commission related to Financial Planning, including ceasing Grandfathered commissions (by January 2021). Due to the fundamentals underlying the existing Mortgage Choice Financial Planning model, these recommendations will have minimal impact on the business.

As CEO of Mortgage Choice I am happy to support any inquiry that strives to strengthen the industry and improve outcomes for the customer. I remain committed to working collaboratively with the industry to implement these changes whilst retaining competition within the home lending market.

Brokers fight for competition

As the broker industry was called into the spotlight, Mortgage Choice joined forces with the Mortgage and Finance Association of Australia (MFAA) and other industry participants to execute an advertising and lobbying campaign to the consumer public.

I am so very proud of our network and brokers who stood together under the Mortgage Choice banner to lobby their local members of Parliament, and take every opportunity available to influence opinion by sharing their customer success stories, while the Company engaged in activity at a national level.

The high impact campaign raised awareness of issues impacting mortgage brokers and created a deeper understanding of their role, and stronger reputation for trust and customer care by communicating the benefits brokers bring to borrowers and the wider economy.

This coordinated approach demonstrated the strength in a unified voice of the industry and the collective ability to work together and achieve a positive result for both brokers and their customers.

59.7%

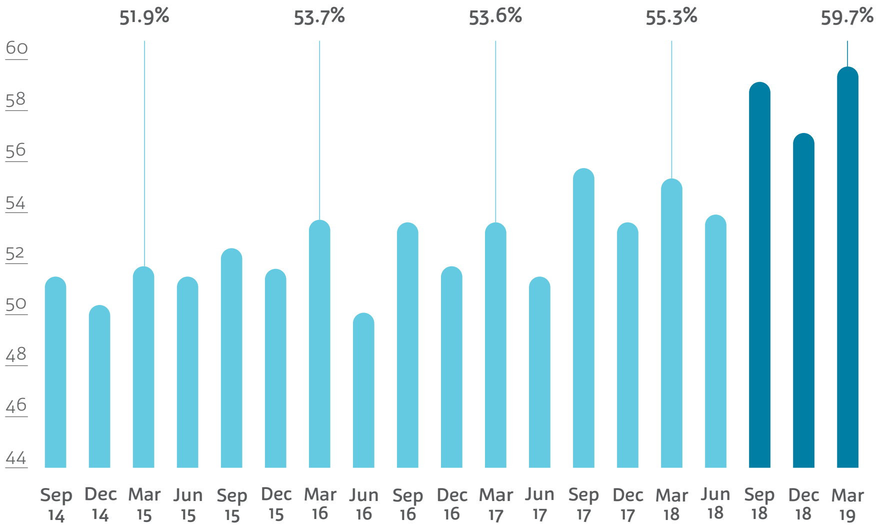
share of residential home loan market originated through the broker channel [2]

90%

of customers are satisfied with services provided by a mortgage broker [3]

1. ABS Data 5601 Table 01 Total Lending to Households; Value of Commitments
2. Comparator Quarterly Report commissioned by MFAA, Jan-March 2019 quarter
3. Deloitte, The Value of Mortgage Broking July 2018

CEO Overview



Broker usage, MFAA[1]
%

Growth in broker market share

As housing affordability and the increasing complexity of the lending environment continued to challenge investors and home buyers in FY2019, mortgage brokers achieved the highest ever residential home loan market share at 59.7%[1] and 90% of customers are satisfied with services provided by a mortgage broker[2]. This is a testament to the choice of products that cater to wider financial needs and professional service brokers provide, which make mortgage applications proceed more smoothly to settlement.

With six out of ten Australian borrowers choosing the services of a broker to secure their property finance, Mortgage Choice's reach into local communities across Australia deepens our relationship with lenders.

Property market outlook[3]

Over the last year, Mortgage Choice brokers faced challenging conditions in the Australian property market, which continued its correction. National dwelling values recorded an annual decline of 6.9% in the 12 months to June 2019, Led by Sydney (-9.9%), Darwin (-9.3%), Melbourne (-9.2%) and Perth (-9.1%), followed by Brisbane (-2.6%) and Adelaide (-0.3%). Hobart and Canberra were the only cities to record dwelling value growth, rising 2.9% and 1.4% respectively.

Across the regional markets, values were down 3.1% for the financial year. The decline in the property market was due in part to tightening credit policy from lenders whose forensic scrutiny of home loan applications significantly delayed loan approvals and reduced the borrowing power of many applicants.

Since the federal election the decline in property prices has lost its momentum and we have seen more stability in house prices. In July the RBA cut the official interest rate to a historic low of 1% which many lenders have passed on, reducing the cost of borrowing for investors and Australian families. This, added to APRA's serviceability changes, will enable people to borrow more, which could put some positive motion back in to Australia's property cycle.

As the spring buying season approaches, these factors provide an improved backdrop for better business flows. As lenders continue to forensically assess home loan applications against borrower debt to income ratios and living expenses, brokers remain to be borrowers' preferred method for securing home finance in an increasingly complex lending environment.

Broker remuneration

As FY2019 began, the Company undertook a program of change to introduce a new broker remuneration framework and drive operational efficiencies. The Company acknowledges the impact this measure has had on shareholders and believes this was a necessary step to ensure Mortgage Choice is better placed in the mortgage broking industry to attract franchisees thus supporting the long term viability of the business.

Network regeneration

The uncertainties overshadowing the broker industry in FY2019 created a difficult set of circumstances in which to recruit. Looking ahead, improved conditions should help Mortgage Choice drive the regeneration of its franchise network, by attracting new business owners who are motivated to partner with the experience and expertise our national brand provides.

Financial Planning

There has been a significant restructuring of wealth businesses across a number of Australia's financial institutions in FY2019. Following the delivery of the Royal Commission recommendations, the financial planning industry continues to experience an intense period of disruption.

Due to the fundamentals underlying the existing Mortgage Choice Financial Planning model, many of the Royal Commission recommendations will have little impact on Mortgage Choice, which has a fee for service advice model and is not reliant on Grandfathered commissions.

Mortgage Choice Financial Planning continues to perform with Premiums In Force growing by 7% and Funds Under Advice rising 30%. Overall the financial planning arm achieved $10.5m in gross revenue in FY2019 to deliver a loss of $0.1m. These results reflect a new remuneration model for the Financial Planning business introduced on 1 October 2018.

The Company continues to capitalise on the disruption in the financial planning industry by seeking out high quality advisers who are considering changing licensees and take advantage of the opportunity to build strong referral relationships within the Mortgage Choice network.

1. Comparator Quarterly Report commissioned by MFAA, Jan-March 2019 quarter
2. Deloitte, The Value of Mortgage Broking July 2018
3. CoreLogic Hedonic Home Value Index July 2019

Innovative Technology

Mortgage Choice has proven its skill in building, delivering and maintaining technology that provides the Company and its franchise network with a competitive edge.

Our new Broker Platform was built to meet the specific requirements of Mortgage Choice brokers and enables them to operate more efficiently and achieve higher business performance outcomes.

As technology advancements continue unabated, our technology team is well placed to incorporate new features to futureproof the Company for tomorrow's business needs and customer requirements.

In late FY2019, Mortgage Choice incorporated its new File Management feature, which is a workflow engine with a set of standard tasks that can be set and managed at a franchise level. This technology will be a key driver of efficiency in our franchisees businesses and will support consistent process management of loans from application to settlement.

Our continued investment in best of breed technology was extended to the financial planning business in FY2019 to enable our advisers to improve the efficiency and success of their businesses.

Business Outcomes

In our last annual report, I shared the Company's four priorities for the year. They were:

- Embed the new broker and adviser remuneration models.
- Undertake a program of operational efficiencies.
- Build brand awareness and improve customer experience.
- Position Mortgage Choice as an aggregator of choice for potential franchisees.

Despite the challenging operating environment in FY2019 the Company has performed well against its profit guidance given in 1H2019, to deliver Net Profit After Tax at $14.0 million.

Business priorities for FY2020

Looking to the financial year ahead, in FY2020 Mortgage Choice will continue to implement its strategic change program to build a platform for growth and long term sustainability. This entails:

Attracting brokers and advisers

- Attract new brokers to regenerate our existing network, as longer tenure franchisees look to sell their businesses to franchise owners who can take the business to the next level. Additionally, attract new business owners into the network who are motivated to partner with the experience and expertise our national brand provides.
- Capitalise on the disruption in the financial planning industry by attracting talented advisers who are considering changing licensees to Mortgage Choice Financial Planning.

Attracting customers

- Mortgage Choice will focus on attracting and retaining more customers by continuing to invest in the Mortgage Choice brand.

Structuring the business for success

- Ensure the majority of the Company's resources are focused on revenue generating activities while maintaining a program of operational efficiencies to reduce costs.

Maintaining our investment in IT

- Continue IT investment to enhance our broker and adviser platforms, while enabling back office automation and an improved digital customer experience.

Susan Mitchell

Susan Mitchell
Chief Executive Officer

BUILDING A STRONGER REPUTATION FOR TRUST & CUSTOMER CARE

Mortgage Choice's Innovative Technology

Mortgage Choice Technology strives to deliver state of the art digital services and solutions that connect people and information, enabling insights and understanding to build loyalty and brand advocacy.

In FY2019, the business focussed its IT investment on uplifting the broker and adviser systems to build a strong foundation for the future and enable efficiency improvements for Group Office and the franchise network.

Broker Platform

The Mortgage Choice broking network has been using the Broker Platform to process customer loan applications since its release in October 2018. The system was specifically designed to transform the loan-processing experience for our broker network whilst providing an interface that is equally engaging for customers. The Broker Platform is now Mortgage Choice's core system, enabling the network to work more efficiently whilst supporting future growth and increased productivity.

Some of the ways in which the Broker Platform benefits franchisees include:

- Single data entry and one source of truth for all customer home loan related data;
- A more user-friendly tool that can be accessed online in realtime from any tablet or laptop;
- Improvement in broker productivity in the loan submission process by up to 30% as compared to the previous technology system; and
- Improved system reliability and availability, with the system in operation over 99.99% of the time, including real time platform upgrades.

The introduction of this new system has also created some productivity improvements in Group Office, with a 50% reduction in loan submission system support costs including reduced call volumes into the IT HelpDesk and a reduction in the level of system maintenance and network training required.

With all franchisees now operating on this new robust, dynamic, reliable and feature-rich platform, the business is positioned for faster and easier updates and enhancements going forward. Mortgage Choice is now also a step closer to providing its network with a one-platform user experience.

"The new Broker Platform has delivered substantial business productivity benefits including consolidation of several previous systems into one platform, easier access to lender product and rate information, and a very impressive loan comparison tool called the Home Loan Doctor, allowing us to more effectively recommend the right lending solution for clients. A key benefit has been the way in which we present lending solutions to clients in a more visually effective manner that helps reinforce and engage clients in the lender selection decision. In terms of benefit realisation, we estimate a 15% improvement in productivity and a stronger client engagement in lender choice decisions"

Paul Williams,
Mortgage Choice Franchise Owner,
South Melbourne, Victoria

"I am really enjoying using the Broker Platform. I find the new platform has more data fields so it allows me to build a complete picture of my client's financial position in minimal time, that data also flows directly into ApplyOnline so there's less double handling of data. I'm a big fan of the reporting functionality too – I can run reports quickly and easily so I can track and analyse my monthly activity, conversion and loan book balance as part of my regular business operations. It's the best place to go to take the pulse of your business"

Jo Duncan,
Mortgage Choice Franchise Owner,
Inner South West Brisbane, Queensland

File Management

The delivery of the Broker Platform is one part of our journey to delivering an exceptional digital home-buying experience for mortgage brokers and customers. It is the fundamental building block on which further developments will be built to help us achieve the desired outcome and grow our business. The second phase of this journey – the delivery of a File Management solution, focuses on building on the platform's foundation to enable a one-platform user experience.

In FY2019, Mortgage Choice developed a standardised, best practice file management process and built this into File Management software. This software delivers efficient workflow management to our broking franchises enabling more consistent business processes when it comes to managing loan application pipelines. As this solution has been fully integrated with the Broker Platform, it also provides greater efficiencies for our network and delivers a more consistent customer experience for those engaging the services of a Mortgage Choice broker.

In essence, the File Management workflow engine:

- Enables improved productivity of mortgage brokers, with less switching between systems and prompting of subsequent tasks for loan application management;
- Reduces training requirements for loan processors and new recruits due to its intuitive system capability; and
- Enables Mortgage Choice to move towards a standardised 'best practice' approach across the network so the process is 'one-way, same-way' improving operational governance.

Mortgage Choice took the new software into pilot with a group of franchisees at the close of FY2019. The solutions are being released to the wider network in the first quarter of FY2020.

In time, Mortgage Choice has the opportunity to expand the workflow management capabilities of File Management into Group Office driving further efficiencies, and to leverage the system for future growth opportunities.

"We have been using File Management during the pilot phase and while we understand there are still some enhancements to be made prior to final release, the improvement that has occurred already is fantastic. We see the end result of this system as a time effective and user-friendly loan tracking and communications tool that will save an immense amount of time throughout the loan process and enable us to communicate effectively with our clients"

Scott Bament,
Mortgage Choice Franchise Owner
Morphett Vale, South Australia

XPLAN

The development of the Broker Platform sets the foundation for future integration of client data across all Mortgage Choice businesses. In FY2019 our focus has been on driving the enhancements and process efficiencies required across our financial planning business to ensure advisers can provide advice in a cost-efficient manner. This also prepares both sides of the business for the closer integration of client data. We have transitioned the adviser network to new financial planning software, market-leading XPLAN, and in doing so delivered the network a more robust solution, whilst helping to reduce the cost to provide advice into the future.

Operating on this new platform will:

- Significantly reduce the time required to manage client files, enabling our advisers to work with more clients over time without increasing resources and costs;
- Allow advisers to produce more advice in-house, reducing the need to use external paraplanning providers; and
- Provide better tracking and reporting on the delivery of ongoing regulatory requirements.

All advisers are now operating on the new system, with regular training available and continued system improvements and functionality enhancements being delivered on an ongoing basis to ensure the experience is continually optimised.

This leading edge technology helps us to deliver a great client experience now and into the future, and positions our business more competitively for adviser recruitment.

"It took some time to learn the new software but now that we've done that we can see it's a good solution which provides efficiencies in running the business. CommPay makes it easy to lodge and then track & reconcile expected revenue to effectively manage cash flow. The workflows are more streamlined with an easier flow, supporting the processes the business needs. Both the insurance and super research tools provide a quicker and more comprehensive way to input client data, do the comparative research and make recommendations for clients than the process with the previous software. "

Matthew La Rocca,
Mortgage Choice Financial Adviser
Hoppers Crossing, Victoria

HelpCentre

The delivery of the new Mortgage Choice HelpCentre at the end of June 2019 forms the basis of our new service model to the franchise network.

The HelpCentre has transformed the way we support our network, enabling users to self-serve information and lodge requests or enquiries to Group Office in the one portal. By bringing all network interactions into one dynamic interface, it enables the business to better manage requests from the network and be more productive, while providing the network an easier, faster and more efficient way of obtaining information. Our phone based support team is also freed up to focus on the more complex queries.

In addition, the benefits of the HelpCentre to the network include:

- Quick and easy search functionality with an intuitive search engine; and
- Ability to submit and track enquiries and view any previous requests.

Additional benefits for Group Office include:

- Analytics and insights on the type of questions and issues being raised by the network to help improve processes and/or network knowledge and training; and
- Improved governance through a consistent content management process.

Our aim is to now build on the HelpCentre functionality to continue to transform the way we service our network, bringing about further improvements in the service experience while seeking additional operational efficiencies for the business.

"The delivery of the HelpCentre is the first step in transforming our service experience for our network of brokers, advisers and staff. The new platform brings all network support interactions together so we can respond more effectively and obtain insights that will assist in identifying further opportunities for efficiency and innovation. We've been receiving great feedback since its launch and I'm excited about the additional functionality that we can add in the future that will further enhance the network's experience."

Dan O'Malley,
HelpCentre Manager

Directors' Report

For the year ended 30 June 2019

Your Directors present their report on the consolidated entity consisting of Mortgage Choice Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2019, hereafter referred to as "Mortgage Choice", or "the Mortgage Choice Group" or "the Group".

Directors

The following persons were the Directors of Mortgage Choice Limited during the financial year and up to the date of this report:

V L Allen

S J Brennan

D Chandran (appointed 20 February 2019)

S J Clancy

A C Gale

P G Higgins

R G Higgins

S C Jermyn (retired 19 June 2019)

Principal activities

Mortgage Choice is a full financial services organisation helping Australians with their financial needs by delivering a range of financial choices teamed with trusted expert advice. The Group's principal activities include:

Mortgage Broking

- The provision of assistance in determining the borrowing capacities of intending residential mortgage borrowers;
- The assessment, at the request of those borrowers, of a wide range of home loan products; and
- The submission of loan applications on behalf of intending borrowers.

Loans & Other Credit Services

- The provision of assistance with credit services, for example car loans, equipment finance, general insurance and personal loans to support personal and home pursuits and/or consolidate debts.

Financial Planning

- The provision of assistance in determining superannuation and wealth management strategies;
- Coaching and active management of the above mentioned strategies;
- The assessment of the customer's protection insurance needs;
- The submission of insurance policy applications on the customer's behalf; and
- Budgeting and cash flow management advice.

Dividends

Dividends paid or payable to members during the financial year are as follows:

A final ordinary dividend of $11.250 million (9.0 cents per fully paid share) was declared for the year ended 30 June 2018 on 20 August 2018 and paid on 10 October 2018.

An interim ordinary dividend of $3.750 million (3.0 cents per fully paid share) was declared for the half-year ended 31 December 2018 on 20 February 2019 and paid on 15 April 2019.

A final ordinary dividend of $3.750 million (3.0 cents per fully paid share) was declared for the year ended 30 June 2019 on 21 August 2019 to be paid on 15 October 2019.

Corporate Governance Statement

The Company's Corporate Governance Statement can be found at http://www.mortgagechoice.com.au/about-us/shareholder-centre/corporate-governance

Review of Operations

A review of the Group's operations is set out in the Operating and Financial Review below.

Operating and Financial Highlights

The FY2019 results were driven by three significant factors. Firstly, we made a considered strategic decision to change our broker remuneration model to competitively position Mortgage Choice to attract high quality new franchisees now and into the future. During the year, we saw a substantial fall in settlements unrelated to the change in the model, but linked to the external lending environment. Tightening credit conditions, easing of property markets and economic uncertainty surrounding the Royal Commission and Federal Election had a combined effect to slow settlement activity across the business. We also saw the withdrawal of our white label home loans partner mid-year.

Mortgage Choice's IFRS NPAT of $13.7m reflected the change in the broker payout as well as a fall in annual settlements of 18%. It is not comparable to the prior year which included a one-off adjustment to reflect the retroactive nature of the change in the broker payout of more than $28m. The cash NPAT fell significantly to $14.0m for the year, or down 40% on FY2018 primarily as a result of the change in broker payout introduced from 1 August 2018.

During the year, Mortgage Choice rolled out several significant IT projects. It invested $3.4 million in its new Broker Platform in FY2019 to enable our brokers to write loans faster while improving the overall customer experience.

Further investments were made within the Financial Planning business. It refreshed its technology platform by transitioning its advice software to XPLAN and revised its remuneration structure to encourage growth in the business.

The new financial planning adviser remuneration model, which was introduced in October 2018, is reflected in the result for Mortgage Choice Financial Planning (MCFP).

Mortgage Choice focussed on reducing operating expenses by 10% in FY2019 as compared to FY2018. The actual result achieved for the year exceeded our target for a total reduction in operating expenses of 17%. This further reduction was achieved due to the non-payment of employee performance incentives in a challenging economic environment. We do, however, expect this to reset next year as the lending environment improves.

Following the broker remuneration model review a number of smaller franchisees and/or offices were rationalised through the merging by owners of multiple franchises and the buyback of a number of very small books. New franchise recruitment was impacted by the uncertainties resulting from the Royal Commission leading up to the Federal Election. Together these influences led to a one-off reduction in overall franchise numbers.

Operating Review

Regulation

FY2019 was dominated by the highest form of public inquiry, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Despite the range of issues identified by the Commission across the financial services industry, there was no evidence of systemic misconduct in the mortgage broking industry introduced.

Further, the Australian Financial Complaints Authority (AFCA) revealed that of 35,263 complaints against financial service providers, 107 related to mortgage brokers in the six month period from 1 November 2018 to 30 April 2019. This is 0.3% of reported complaints.

As an active participant of the Combined Industry Forum (CIF), Mortgage Choice is committed to the implementation of the recommendations developed by the CIF, in response to ASIC's 2017 Review of Mortgage Broker Remuneration.

In the face of regulatory pressure, the Board is confident that the valued service our mortgage brokers and financial advisers have provided will continue to deliver positive outcomes for consumers.

New Remuneration Models

Mortgage Choice underwent a program of companywide change in FY2019 which included the implementation of a new broker remuneration model to drive sustainable growth. The revised model coupled with the support services the Company provides franchisees is expected to attract new, motivated individuals with a business-owner mindset to our organisation over the coming years.

In a similar vein, a new remuneration model was rolled out to the MCFP network. It recognises growth sooner and faster to encourage MCFP franchise owners to invest in growing their businesses and improves the competitiveness of the model.

Investment in innovative technology

In FY2019 Mortgage Choice has delivered best in class technology that provides our brokers with the platform to operate more efficiently and achieve higher business performance outcomes. We have achieved this by ensuring the reliability and 99.99% availability of our new Broker Platform. In achieving the 'four nines' of high availability, Mortgage Choice has proven its undisputed skills in building, delivering and maintaining technology that provides the Company and its franchise network with a competitive edge. As technology advancements continue to be rolled out, our technology team are well placed to incorporate new features to futureproof the Company for tomorrow's business needs and customer requirements.

Our key technology achievements in FY2019

New Broker Platform

In FY2018, Mortgage Choice invested $3.4 million on the new Broker Platform. Our core IT stack was built to meet the specific requirements of Mortgage Choice brokers and reduces data entry across multiple systems to enable a quicker, smoother loan submission. By building the new Broker Platform on microservices based architecture and exposing capability based APIs, the Company has futureproofed this core platform for the technological needs of tomorrow.

In FY2019, technology continued to be an important enabler at Mortgage Choice, with activity focussed on delivering powerful new features that allow our brokers to increase efficiencies and better serve their clientele.

- Within the heart of the new Broker Platform, the **Product Catalogue** enables brokers to quickly and simply show customers suitable home loan products from thousands of product options.
- Through our **Home Loan Doctor** brokers can compare home loan products and show customers useful graphs and loan payment schedules to assist them in making informed purchasing decisions.
- Driving efficiencies in processing files whilst delivering a consistent customer experience across our franchise network has been enabled through the establishment of **File Management** software, a rules-based workflow engine with a simple interface and a standard set of tasks that brokers can add to and customise for their franchise business.
- We have built a secure online **Customer Portal** where the customer can interact with the broker through a document repository and by sharing personal finance information such as salary slips, bank statements and tax returns, so our brokers can accurately model scenarios.
- With security at the forefront, the Company adopted next generation firewall products and further protects customer data with leading identity and access management platforms.

HelpCentre

The new Mortgage Choice HelpCentre is an online self-service resource that is designed to assist franchisees across our network easily locate information and submit requests to Group Office. The new tool provides a range of operational efficiencies for Group Office, while providing a fast and user-friendly experience to the franchise network due to its functional design and enhanced search capability.

Advisers XPLAN migration

To further increase practice efficiency, in FY2019 Mortgage Choice Financial Planning rolled out a fully configured version of the industry-leading technology platform XPLAN. The new system provides many enhanced features and functionality that will enable our advisers to improve efficiency and strengthen compliance processes, all of which are critically important in the current environment. Mortgage Choice successfully migrated our advice franchises to the integrated financial planning software and provided each adviser and staff member with face-to-face training. The new software will be both a powerful and practical tool to help advisers provide clients with quality, goal-oriented advice as enhancements continue to roll out over the next six months.

Technology roadmap

In the fiercely competitive mortgage broker market, companies that choose to innovate through technology have a higher propensity to drive financial performance. To reflect this, we have ambitious plans for our FY2020 roadmap, where the focus will shift to enabling back office automation and an improved digital customer experience.

Diversification

Mortgage Choice continues to develop its product offering in line with increasing customer expectations and our objective to build on our full financial services proposition.

Products to meet customer needs

To provide our customers with increased choice, Mortgage Choice added eight new business partners to its product panel in FY2019. The broadening of our panel ensures we can offer a greater breadth of tailored solutions across mortgages, insurances, personal loans and commercial finance. This enables our brokers to navigate increased complexities in lending policies to better meet the evolving needs of our customers. We expect to further expand our panel across multiple products throughout FY2020.

Financial Planning

Mortgage Choice Financial Planning continues to perform with Premiums In Force growing by 7% and Funds Under Advice rising 30%. Overall the financial planning arm achieved $10.5m in gross revenue in FY2019 to deliver an IFRS loss of $88,000.

In a watershed year for the advice industry, which saw the restructuring of wealth businesses across a number of Australia's financial institutions. Mortgage Choice is active in attracting quality advisers seeking the backing of a national brand and the opportunity to build referral relationships within the Mortgage Choice broker network.

Brand Presence

For over 27 years, Mortgage Choice has been helping Australians with their financial needs by delivering a range of financial choices teamed with trusted expert advice. Effective brand marketing is key to customer acquisition and retention and our marketing communications strategy continues to drive awareness of how our wide range of products and services can help.

By connecting with customers in a meaningful way, via a range of traditional and digital channels, we have driven engagement and preference for Mortgage Choice in FY2019.

Boot Camp

In the current lending environment borrowers need to be financially fit to get a home loan. In response to borrowers' increasing need for financial education, we launched our first Mortgage Choice Home Loan Boot Camp in FY2019. Based around a core digital content program including interactive quizzes and educational videos, Boot Camp was spearheaded by a national advertising campaign and supported by providing brokers with local area marketing materials. The successful collaboration enabled us to increase our brand awareness to drive over 6,000+ webpage views and an additional 250,000 views through our paid partnership with realestate.com.au.

Customer communications program

In FY2019 we have continued to have success in reaching our customers via our flagship customer communications program, MC Connect. This centralised program sends curated emails that are relevant to a customer's stage in the home loan journey, which are personalised with local broker's details. Our Lead Nurture and Trigger based communication programs create further opportunities to provide information and cross sell opportunities.

Social Media

In FY2019 we have enabled more brokers to connect with customers through social media via our custom-built Metigy platform. This platform gives brokers access to a range of quality content created by the Mortgage Choice Marketing team, to post across a range of their social platforms such as Facebook, Instagram, Twitter and LinkedIn.

Corporate Affairs

The Corporate Affairs team drives our strategic communications outreach to position Mortgage Choice as a pioneer of opinion and thought leadership with key business, trade, consumer and political media.

This year, the Mortgage Choice Corporate Affairs team have been successful in securing regular broadcast media segments for CEO, Susan Mitchell to provide market updates and discuss current industry issues. This gave the Company a presence in Canberra and enabled Mortgage Choice to show case the value of mortgage brokers with decision makers, in this most important of years.

The Mortgage Choice press office is prolific in its creation of national media opportunities through the provision of customer case studies; independent commissioned research and whitepapers, which support the Company's advertising campaigns; and provide a broader narrative on the Mortgage Choice value proposition.

The Company's renewed focus on entering Industry Awards helps solidify brand reputation and market positioning as we look to regenerate the franchise network.

Distribution

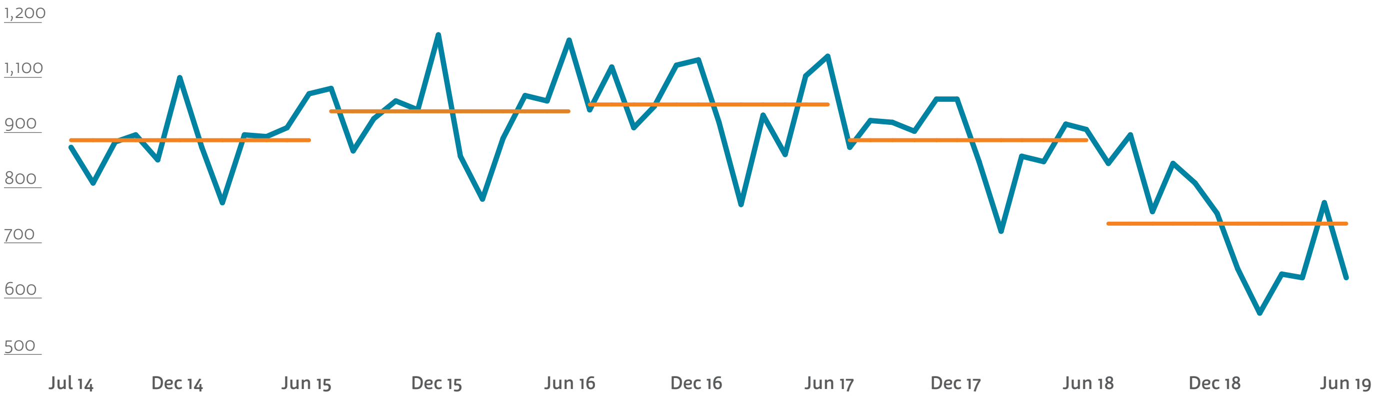
Mortgage Choice is active in driving the regeneration of its broker network through recruitment. We are selling new franchise areas with existing marketing databases, which enable new entrants to kickstart their business, with opportunities to service clients and build a sales pipeline from day one.

Where franchise owners are seeking a transition of their business by recruiting for future growth, or transitioning out of the business, Mortgage Choice assists with succession planning to introduce new talent into the network.

It should be noted that FY2019 was a challenging period for new business owners and brokers across the industry due to the ongoing Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. With this major inquiry behind us and clear support from government and consumers, Mortgage Choice continues to attract new business owners who are keen to partner with the experience and expertise our brand provides.

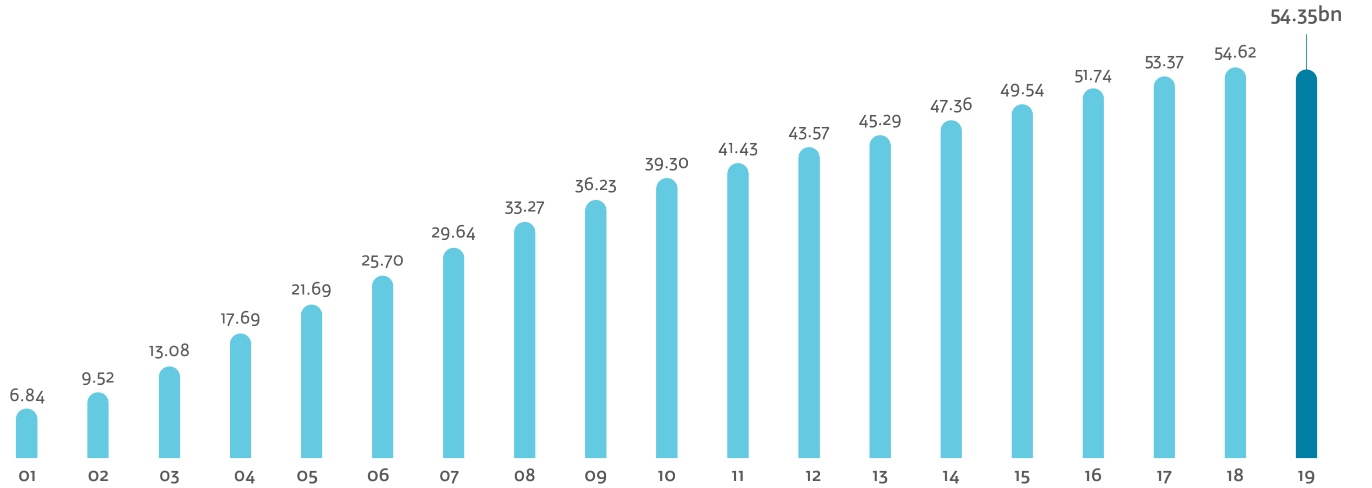
Financial Review

Our statutory IFRS profit increased by 224% to $13.7 million as the prior comparable period included a one-off adjustment of $28m to reflect the retroactive nature of the remuneration model change introduced as of 1 August 2018, as discussed earlier. Our cash profit decreased by 40% to $14.0m, also reflecting the strategic change in the broker remuneration model. Settlements for the year were $9.4 billion, down 18% on FY18.



Settlement Trends
$m

As at 30 June, Mortgage Choice's total loan book (including residential and commercial loans) was $54.3 billion – down from $54.6 billion in FY18.



Loanbook
$bn

As in prior years, an actuarial review was conducted on the residential loan book. The review found the run-off rate of the loan book was slower than the assumptions used in the valuation at 30 June 2018. Management determined that this required a positive balance sheet adjustment of $2.7m at year end to bring the valuation in line with the actual loan book position and assumed future run-off profile. The underlying operating revenue before adjustment, is down 15.8% year on year due to the fall in settlements. The table below shows the movement in the underlying statutory results year on year.

Directors' Report

For the year ended 30 June 2019

Underlying Statutory Results

	2019 $'000	2018 $'000
Operating Revenue		
Underlying operating revenue	**163,711**	194,439
Adjustment to NPV receivable (contract asset) for changes in run-off and other assumptions	**13,644**	23,369
Total operating revenue	**177,355**	217,808
Profit after tax		
Underlying result after tax	**11,058**	25,651
Adjustment to net NPV receivable (contract asset) for changes in run-off and other assumptions	**2,666**	7,055
Adjustment to valuation of loan book payable due to model changes	**—**	(28,468)
Total profit after tax	**13,724**	4,238

Cash results decreased 40% to $14.0 million for the year. This fall in cash results was due to a reduction in settlements combined with an increase in payout offset by a 17% reduction in operating expenses.

Focus areas for FY2020

Mortgage Choice will continue to implement its strategic change program to build a platform for growth and long term sustainability.

Attracting brokers and advisers

The remuneration and system changes delivered in FY2019 strengthen both the broking and financial advice recruitment propositions and with the dissipation of the uncertainty surrounding the Royal Commission, Mortgage Choice is now in a strong position to attract new franchise owners.

The recruitment efforts for mortgage broking will be focused on regenerating the existing network as longer tenure franchisees look to turn over their businesses to new franchise owners set to take the business to the next level.

The recruitment efforts for MCFP will focus on growing the scale of the financial planning network. Due to the amount of change occurring in the advice industry, advisers are considering changing licensees in unprecedented numbers. Many are leaving the large institutions in favour of self-licencing or smaller, established licensees. There is an opportunity for Mortgage Choice to capture a share of this market.

Attracting customers

Mortgage Choice will continue to invest in ensuring Mortgage Choice is a strong, well known brand that creates value for the Company and its franchisees by attracting and retaining more customers.

Structuring the business for success

The business will continue to challenge the current operating model in order to reduce costs whilst maintaining the service support for brokers and advisers. Processes will be re-engineered, automated or outsourced to improve efficiencies and to ensure the majority of the Company's resources are focused on revenue generating activities.

Maintaining our investment in IT

Our future success is dependent on continued investment in IT. We will continue to enhance the broker and adviser platforms with an added focus of enabling back office automation and an improved digital customer experience.

Significant changes in the state of affairs

Except for the matters disclosed in the Review of Operations section of this annual report, there have been no significant changes in the state of affairs of the Group.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect:

a) the Group's operations in future financial years,

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory in respect to its activities.

Information on Directors

Mortgage Choice made two changes to its Board of Directors in FY2019.

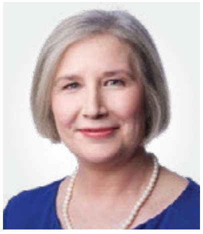
In June 2019 we announced the retirement of Steve Jermyn as a Director of the Company. Steve joined the Mortgage Choice Board in May 2004 and has provided invaluable guidance and leadership through his extensive franchising experience.

Mortgage Choice continues to attract highly experienced board members who can leverage the fresh skills and knowledge needed to effectively steer the company to future success. In February 2019 the Company announced the appointment of Dharmendra (Dharma) Chandran to the Mortgage Choice Board of Directors.

Directors' Report

For the year ended 30 June 2019

Board of Directors



Vicki Allen

BBus, MBA, FAICD

- Independent Non-Executive Chairman
- Chairman of nomination committee and member of remuneration committee
- Director since 19 June 2017

Vicki was appointed the Independent Non-Executive Chairman in July 2017. Vicki has over thirty years of senior executive and board experience across the financial services and property sectors. During her executive career she held various senior roles at The Trust Company, National Australia Bank, MLC and Lend Lease Corporation. She has held a number of non-executive director roles in recent years and is currently a non-executive director of Bennelong Funds Management Limited, Bennelong Funds Management Group Pty Ltd and Chairman of the BT Funds board. She is a member of the Audit and Risk Committee of the NSW Ombudsman. Vicki is a Fellow of the Australian Institute of Company Directors and a Trustee Fellow of The Association of Superannuation Funds of Australia. Age 57.

Sarah Brennan

FFPA, GAICD

- Independent Non-Executive Director
- Member of remuneration committee and Chairman of the Mortgage Choice Financial Planning investment committee
- Director since 21 March 2018

Sarah Brennan is an entrepreneur with over 25 years' experience in the financial services industry at an Executive, Consultant and Board level. She brings with her an extensive background in the areas of strategy, innovation, professionalism and regulatory and corporate governance. Sarah founded Comparator, the leading provider of benchmarking to the Australian financial services market, which she then sold to CoreLogic. She has held senior roles at Citibank, MLC, Deutsche Bank and has provided consulting services across financial services and wealth management to both domestic and international clients. Age 52.

Sean Clancy

Dip Mkt, FAICD

- Independent Non-Executive Director
- Chairman of remuneration committee and member of audit and risk committee
- Director since 18 May 2009

With a sales and marketing background across many industries including banking, fast moving consumer goods, liquor, pharmacy, consumer electronics, telecommunications and hardware, Sean brings a diverse range of knowledge and expertise to the Mortgage Choice Board. He is also a Director and Chief Executive Officer of Transfusion Ltd, Chairman of Metropolis Inc., Campaign Express, Non-Executive Director of Gowing Brothers and of Whitecoat and Ambassador to Business Events Sydney. Age 59.

Andrew Gale

BA (actuarial major), MBA, FAICD, FIAA

- Independent Non-Executive Director
- Chairman of audit and risk committee and member of nomination committee
- Director since 21 March 2018

Andrew Gale is a qualified actuary with extensive knowledge of the financial services sector. He has had a deep involvement in financial services regulatory issues in a range of capacities and brings expertise in general management, M&A, corporate strategy, marketing, distribution and risk management. He has over 35 years' experience in the industry, including roles as Executive Director with Chase Corporate Advisory, CEO and Managing Director for Count Financial Ltd, Managing Partner for Deloitte Actuaries and Consultants, and various senior executive roles at MLC and AMP. Andrew has over 25 years' experience as a board director. He is a non-executive director (NED) for the NAB Advice & Licences Board, NULIS Nominees (Aust) Limited (trustee for MLC's superannuation entities), and Harper Bernays Limited. He was a NED of the SMSF Association Limited for 6 years to June 2018, and its Chairman for 2 years. Andrew is a past President of the Institute of Actuaries of Australia. Age 62.

Peter Higgins

- Non-Executive Director
- Member of audit and risk committee
- Director since 30 November 1989

Peter is co-founder of Mortgage Choice. He is also Executive Chairman of Technology Company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com and a Director of Argosy Agricultural Group Pty Ltd and a Member of the Hawkesbury Valley Economic Advisory Committee. Peter is also an Ambassador of the International Federation of Polo. Having been successfully self-employed for over 30 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 59.

Rodney Higgins

- Non-Executive Director
- Member of nomination and remuneration committees
- Director since 30 January 1986

Rodney is co-founder of Mortgage Choice. With a background in residential and commercial property, sales and leasing, he has been a Director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 64.

Dharmendra Chandran

MCom, LLB, BCom

- Independent Non-Executive Director
- Member of audit and risk committee
- Director since 20 February 2019

Dharma is a highly respected corporate strategy and human resources executive with a track record in business transformation and cultural change. Dharma developed a deep understanding of the financial services industry throughout his time in various consulting roles and his five years at Westpac. He has held various Board roles for private companies and government related organisations, more recently, as a Non-Executive Director and Chair of the Board People Committee for 7-Eleven. Age 55.

Steve Jermyn

FCPA

- Independent Non-Executive Director, resigned 19 June 2019
- Director since 24 May 2004

Steve joined McDonald's Australia in 1984 and joined the Board of Directors in 1986. In June 1999, he was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. He retired from McDonald's Australia in 2005. Steve is Chairman of Half the Sky Foundation Australia Ltd, Director of Guzman Y Gomez (Holdings) Pty Ltd and Director of Ronald McDonald House Charities. Age 70.

Directors' interests

The table below sets out the DIrectors' interests at 30 June 2019:

Director	Particulars of Director's interests in shares Ordinary shares
V L Allen	60,000
S J Brennan	—
D Chandran	—
S J Clancy	120,000
A C Gale	—
P G Higgins	259,253
R G Higgins	15,380,212

Company Secretary

The Company Secretary is Mr Ian Parkes BEc, MBA, CA who is also the Company's Chief Financial Officer.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

			Meetings of committees					
	Full meetings of Directors		Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
V L Allen	10	10	*	*	4	4	3	3
S J Brennan	10	10	*	*	*	*	3	3
D Chandran	2	2	*	*	*	*	*	*
S J Clancy	9	10	3	3	*	*	3	3
A C Gale	10	10	3	3	4	4	*	*
P G Higgins	9	10	3	3	*	*	*	*
R G Higgins	6	10	*	*	2	4	2	3
S C Jermyn	9	10	3	3	*	*	*	*

A = Number of meetings attended
B = Number of meetings held
* = Not a member of the relevant committee

Remuneration Report

This Remuneration Report sets out the FY 2019 remuneration information for the Company's Non-executive Directors, Chief Executive Officer ("CEO") and other key management personnel (collectively "KMP") as defined in the Glossary at the end of this report.

The report contains the following sections:

a) Chairman's introduction

b) KMP included in this report

c) Remuneration governance

d) Executive remuneration policy and framework

e) Executive remuneration for FY 2019

f) Relationship between remuneration and Mortgage Choice Limited's performance

g) Non-executive Director remuneration

h) Statutory disclosures

i) Glossary

a) Chairman's introduction

Dear Shareholders

On behalf of the Board, I am pleased to present the FY 2019 Remuneration Report to you.

The Board is committed to a transparent remuneration approach linked to company strategy and performance which balances the long term interests of shareholders and the need to attract and retain talented professionals who can deliver on the company goals and business objectives.

Despite the achievement of a number of key strategic initiatives during the year, and the achievement of a range of individual KPI's, the KMP did not achieve the cash profit target gateway set by the Board and accordingly for FY2019, there were no executive KMP STI payments.

In addition, the performance hurdles for the 2016 Long Term Incentive were only partially met and as a result 50% of the 2016 LTI vested and 50% of the 2016 LTI lapsed.

Looking ahead, we will continue to monitor and adjust our remuneration policies and processes to ensure we create the best environment to achieve our strategic goals.

Sean Clancy
Chair of the Remuneration Committee

b) KMP included in this report

Table A: KMP during FY 2019

Name	Position
Non-executive Directors	
Vicki L Allen	Non-Executive Chairman
Sarah J Brennan	Non-Executive Director
Sean J Clancy	Non-Executive Director
Andrew C Gale	Non-Executive Director
Peter G Higgins	Non-Executive Director
Rodney G Higgins	Non-Executive Director
Dharmendra Chandran [1]	Non-Executive Director
Stephen C Jermyn [2]	Non-Executive Director
Executive KMP	
Susan R Mitchell	Chief Executive Officer
Ian J Parkes [3]	Chief Financial Officer
Neill C Rose-Innes	General Manager – Distribution
Melissa J McCarney	General Manager – Group Marketing
Emma A Dupont-Brown	General Manager – Product and Corporate Communications
Tania J Milnes	General Manager – Financial Planning
Marie J Pitton	General Manager – Human Resources
Vincent C ten Krooden	Head of IT

1 Mr Chandran was appointed as a Director on 20 February 2019.
2 Mr Jermyn retired from the Board on 19 June 2019.
3 Mr Parkes commenced in the role of Chief Financial Officer on 15 October 2018.

Remuneration Report continued

c) Remuneration governance

The diagram below provides an overview of the Company's remuneration governance framework.

Remuneration Governance Framework

Board

Responsible for overseeing the Company's remuneration structure and ensuring it is appropriate for the Company's circumstances, performance, and aligned with the long-term interests of the Company and its shareholders.

Oversee & delegate ↓ ↑ Recommend & inform

Remuneration Committee

Holds primary responsibility for remuneration governance.

Makes recommendations to the Board on:

– Non-executive Director fees;
– Executive remuneration; and
– Operation of the incentive plan.

Seeks advice from independent remuneration consultants.

The Corporate Governance Statement located on the Mortgage Choice website provides information on the role and composition of the Remuneration Committee.

www.mortgagechoice.com.au/about-us/shareholder-centre/corporate-governance.aspx

Engage →

← Advise

Remuneration Consultants

Remuneration consultants and other independent advisors are engaged by the Remuneration Committee from time to time to advise on various issues, including structuring of remuneration, benchmarking data and market practice of other listed companies.

During FY2018, the Company's Remuneration Committee engaged the services of AON Hewitt to review and provide guidance on the Executive Team's remuneration framework. This formed the basis for the remuneration framework applied in FY 2019.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

– AON Hewitt was engaged by and reported directly to the Chair of the Board and Remuneration Committee;
– The agreement for the provision of remuneration consulting services was executed by the Chair of the Board and the Remuneration Committee under delegated authority of all Board members;
– The report containing remuneration recommendations was provided by AON Hewitt directly to the Chair of the Board and the Remuneration Committee; and
– AON Hewitt were permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

Remuneration Report continued

d) Executive remuneration policy and framework

The following diagram shows the remuneration policy and framework that the Board, as advised by the Remuneration Committee, applies in setting executive remuneration.

Executive Remuneration Policy & Framework

Remuneration policy

Aim to ensure that remuneration practices are:

- fair and reasonable, enabling the Company to attract and retain key skills and experience;
- aligned to the Company's strategic and business objectives and the creation of shareholder value;
- transparent; and
- acceptable to shareholders.

Fixed

Fixed Remuneration

- Fixed remuneration consists of base cash salary and superannuation.
- Base salary is reviewed annually against external benchmarks to ensure it remains within market parameters.
- Superannuation is paid up to the maximum super contribution base.

Performance based

Short Term Incentive ("STI")

- Designed to reward short term performance.
- STI awards are awarded based on performance against a balanced scorecard.
- Scorecards are structured as a combination of financial, strategic and operational KPIs.
- CEO's STI is delivered 50% in cash and 50% in deferred performance rights. The performance rights vest in 2 tranches (50% after 1 year and 50% after 2 years), subject to continued employment.
- Other executive KMP receive cash STI.

Long Term Incentive ("LTI")

- Designed to reward longer term performance.
- LTI awards are delivered as performance share rights with vesting subject to performance hurdles.
- 40% of the award is subject to a relative Total Shareholder Return ("TSR") performance hurdle and the remaining 60% subject to cash EPS growth hurdles.

Total remuneration = Fixed Remuneration + STI + LTI

Remuneration Report continued

CEO Remuneration

The Company appointed the CEO, Susan Mitchell, in April 2018. Her remuneration is as follows:

- Base Salary: $550,000
- Maximum STI: $440,000 (50% at target to a maximum STI of 80% at stretch performance)
- Maximum LTI: $275,000
- Maximum Total Remuneration: $1,265,000 (plus Superannuation in accordance with the superannuation guarantee legislation).

In accordance with Susan's employment agreement, she received a special one-off grant of 90,000 performance rights which vest in two equal tranches in April 2019 and April 2020 subject to achievement of performance criteria set by the Board. The performance criteria for the April 2019 tranche were associated with the implementation of the new broker and adviser remuneration structures. These rights vested during the year. The second tranche, due to vest in April 2020, has performance criteria relating to network engagement measures and continued service.

The CEO's remuneration mix (excluding the one-off share rights grant) is below.

Table B: CEO remuneration mix

	Fixed	Performance Based	
Position	Base remuneration	Maximum STI opportunity	Maximum LTI opportunity
CEO	45%	34%	21%

e) Executive remuneration for FY 2019

Fixed remuneration

An executive's fixed remuneration comprises a base cash salary plus superannuation limited to the maximum super contribution base. Executives have an opportunity to salary sacrifice amounts from their base salary towards additional superannuation as well as a series of prescribed benefits including any associated fringe benefits tax.

Fixed remuneration is reviewed annually by the Remuneration Committee against external benchmarks, to ensure it remains appropriate relative to the market. Although fixed remuneration adjustments may be made after comparison to external benchmarks, or on promotion, there are no guaranteed fixed remuneration increases in any executive contracts.

Short-term incentives

A summary of the Company's STI arrangements are set out in the table below:

Table C: Summary of FY 2019 STI arrangements

What is the STI plan?	The STI plan is an incentive plan under which participants are eligible to receive an annual award if they satisfy pre-determined performance criteria. The criteria are designed as a balanced scorecard to deliver against the Company's strategic and financial goals as well as motivate and reward high performance. This aligns the executives' interests with the Company's performance.
Who can participate?	The CEO and other executive KMP are eligible to participate in the STI plan.
What is the maximum opportunity for executives?	The maximum STI opportunity is: – **CEO** – 80% of fixed remuneration. – **Other executive KMP** – between 24% and 42% of fixed remuneration. The maximum STI opportunity for exceptional performance against the KPIs is set at 120% of target.
Is there a gateway performance requirement before any incentive is paid?	Yes, the Board will not authorise the payment of STI to any executive KMP unless a minimum cash NPAT gateway has been achieved. Individual executive KMP cannot receive an STI unless they have met a minimum conduct gateway.
What is the performance period?	The performance period is 1 year and aligns with the financial year. For FY 2019, the performance period was 1 July 2018 – 30 June 2019.

Remuneration Report continued

What are the conditions for an STI award to be made?

STI awards are paid to participants where:

– the executive has been continuously employed until the end of the relevant financial year;
– the executive has satisfied his or her individual KPIs to at least a minimum standard;
– the executive has met the conduct gateway; and
– the Company has achieved the NPAT gateway.

How does the STI Pool Group Modifier work?

The Group Modifier adjusts the STI pool in line with the Group's profit result. This means that STI payments will vary with the Company's capacity to pay.

If the Group does not meet the gateway level of cash NPAT performance, as set by the Board, the modifier is zero and the STI outcome is $0 regardless of the performance by individual executive KMP in accomplishing their Individual and Business KPIs.

The Group Modifier for FY2019 was set at zero and no STI payments were awarded.

What are the performance conditions for the CEO?

The CEO was assessed against the following three areas of strategic focus in support of the Group's business objectives for FY 2019 to drive profitability for the benefit of our franchise network and shareholders:

– Operational Efficiencies (including key IT projects);
– Recruitment/Distribution Growth; and
– Network Engagement.

The CEO's individual goals/KPIs that were linked to the above objectives were broken down to:

Scorecard Category	Weighting	Measurement	Achievement
Cash NPAT	Gateway	Cash NPAT target as set by board	✗
Operational efficiencies	20%	Delivery of IT Projects to schedule and agreed budget	✓
	20%	Identify & implement efficiency opportunities	✓
Recruitment / Distribution Growth	20%	Achievement of growth targets set for new franchisees & loan writers	✗
	10%	Achievement of growth targets set for new financial advisers	✗
Engagement	30%	Franchisee Engagement Survey Score	✓

As the cash NPAT KPI gateway was not met in FY 2019, the STI outcome for the CEO was nil regardless of the successful outcomes achieved against the majority of her individual KPIs.

Key: Percentage of achievement against targets set:

Exceed expectations:	105.1%+	✓
All objectives met:	95.01–105%	✓
Most objectives met:	75.01–95%	✓
Several objectives met:	55.01–75%	✓
Few objectives met:	35.01–55%	✓
Not met:	<35%	✗

Remuneration Report continued

What are the performance conditions for other executive KMP?

The executive KMP were assessed against the following four areas of strategic focus in support of the Group's business objectives for FY 2019 to drive profitability for the benefit of our franchise network and shareholders:

- Sustainable Growth;
- Operational Efficiencies;
- Recruitment / Distribution growth; and
- Franchisee engagement.

KMP individual goals/KPIs that were linked to the above objectives were broken down to:

Scorecard Category	Weighting	Measurement	Achievement
Cash NPAT	Gateway	Cash NPAT target as set by Board	✗
Sustainable Growth	10–25%	Brand awareness	✓
		Achievement of target to increase Diversified Revenue	✓
Operational Efficiencies	10–25%	Delivery of IT Projects to schedule and agreed budget	✓
		Identify & implement departmental efficiency opportunities	✓
Recruitment / Distribution Growth	15–45%	Achievement of growth targets for new franchisees and loan writers	✗
		Achievement of growth targets set for new financial advisers	✗
Engagement	10–35%	Franchisee Engagement Survey Score	✓
		Staff Engagement Survey	

As the cash NPAT KPI gateway was not met in 2019, the STI outcome for executive KMP was Nil regardless of the outcomes delivered against individual KPIs.

Key: Percentage of achievement against targets set:

Exceed expectations:	105.1%+	✓
All objectives met:	95.01–105%	✓
Most objectives met:	75.01–95%	✓
Several objectives met:	55.01–75%	✓
Few objectives met:	35.01–55%	✓
Not met:	<35%	✗

How is performance assessed?

The Remuneration Committee assesses the CEO's performance against KPIs and determines the CEO's STI award (if any). For other executive KMP, this assessment is completed by the CEO and approved by the Remuneration Committee.

Performance against the performance measures is assessed annually as part of the broader performance review process for each member of Executive KMP.

Both financial and non-financial conditions are assessed quantitatively against predetermined benchmarks where appropriate. For the purposes of testing the financial hurdles, financial results are extracted by reference to the Company's audited financial statements. Where quantitative assessment is not practicable, qualitative performance appraisals are undertaken.

These methods of assessing performance were chosen because they are, as far as practicable, objective and fair. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company.

How is the STI pool calculated?

STI awards are paid out of a defined STI pool. The STI pool is based on the combined value of the STI participants' target STI (an agreed percentage of the individual's base salary) and is funded from the NPAT result delivered for the year.

The actual cash NPAT result operates as a modifier to the final STI pool value. i.e. as cash NPAT increases or decreases so does the STI pool and in turn the individual's potential STI payment for the year.

As the cash NPAT threshold for FY2019 was not delivered the Group Modifier for FY 2019 was set at zero and the STI pool for FY 2019 was reduced to $0.

Remuneration Report continued

How is reward delivered under the STI Plan?	**CEO:** If an STI award is made, the STI award is delivered 50% in cash and 50% in performance rights. Vesting of performance rights is deferred for up to two years. Further details regarding the deferred component of the CEO's STI award are set out below. **Other executive KMP:** If an STI award is made, the STI outcome is paid 100% in cash. STI cash payments (if any) are made following board approval of the Annual Report.
Is there discretion to adjust STI awards?	Individual STI awards are not formulaic and the Board may adjust awards up or down where circumstances warrant e.g. positive franchisee outcomes and engagement or where the risk tolerance is breached.

Deferred STI arrangements for the CEO

How do the deferred STI arrangements work?	If an STI award is made to the CEO, 50% of the award is deferred in the form of performance rights granted under the Company's Share Rights Plan. The number of performance rights granted is determined by dividing 50% of any STI awarded to the CEO by the volume weighted average price (VWAP) of shares in the Company traded on the ASX over the 5 trading days prior to the grant date. Performance rights are offered at no cost to the CEO. Subject to the vesting conditions being met (see below), the CEO will be allocated one share for every performance right that vests, plus the number of shares that would have resulted from dividend reinvestment during the vesting period. Shares may be sourced on-market, from a new issue of shares or from shares held by the trustee of the Company's employee share plan trust. In certain circumstances the Board has the discretion to pay a cash equivalent amount in lieu of an allocation of shares.
What are the vesting conditions applicable to the STI performance rights?	Performance rights are subject to both a continuous service condition and clawback provisions. No other performance conditions are applicable on the basis that challenging performance conditions relating to the STI award were met before any performance rights were granted. Vesting of performance rights occurs as follows: – 50% 12 months after the end of the STI performance period; and – 50% 2 years after the end of the STI performance period. No performance rights have been or will be granted in relation to FY 2019 STI.
What rights are attached to the performance rights?	Performance rights do not carry any voting or dividend rights, however shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares.
Does the Board have discretion to clawback the award?	Performance rights may be forfeited if a material financial misstatement is uncovered relating to the year of the original STI award. If the Board determines that the CEO has acted fraudulently or dishonestly; has breached her obligations to the Group; or is knowingly involved in a material misstatement of financial statements; any shares to which she may have become entitled at the end of the performance period, and any rights held by the CEO under the Performance Rights Plan are forfeited.
What happens if the CEO ceases employment?	The CEO will forfeit unvested performance rights on cessation of employment with the Company unless cessation results from death, total and permanent disability, retirement or redundancy as determined by the Board in its absolute discretion. In these circumstances the Board may, in its discretion, determine the treatment of any unvested performance rights.
What restrictions apply?	The CEO is prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, all shares allocated on vesting can only be dealt with in accordance with the Company's Share Trading Policy.

Remuneration Report continued

Long-term incentives

A summary of the Company's LTI arrangements is set out in the table below.

Table D: Summary of FY 2019 LTI arrangements

What is the LTI Plan?	The LTI plan awards executives for achieving specified performance conditions which underpin sustainable long-term growth. The Company believes that granting performance based equity to its executives under the LTI plan is an effective way of aligning the interests of executives with shareholders.
Who can participate?	The CEO and other executive KMP are eligible to participate in the LTI plan. Subject to the Board's discretion, grants are made annually to executives.
What is the maximum opportunity for executive KMP?	The maximum LTI opportunity is: **CEO:** 50% of base salary face value at the grant date. **Other executive KMP:** between 20% and 35% of base salary face value at the grant date.
How is reward delivered under the LTI Plan?	LTI awards are delivered in the form of performance rights granted under the Company's Share Rights Plan. The number of performance rights granted to an executive is determined by dividing the executive's maximum LTI opportunity by the volume weighted average price of shares in the Company traded on the ASX over the 5 trading days prior to the grant date. Shares allocated on the vesting of performance rights may be sourced on-market or from a new issue of shares. The number of performance rights that will vest will be determined by the % vesting outcome applied to each tranche as detailed below. Subject to these vesting conditions being met, executives will be allocated one share for every performance right that vests, plus the number of shares that would have resulted from dividend reinvestment during the vesting period. Performance rights are offered at no cost to the executives.
What is the performance period?	Performance is measured over a 3 year performance period. Following testing, vesting of performance rights (if any) occurs in September of each year.
What are the vesting conditions for an LTI award?	In order for an LTI award to vest: – the executive must be continuously employed by the Group until the vesting date (unless service ends due to death, disability, redundancy or other exceptional circumstances); and – the performance conditions must be met (see below).

Remuneration Report continued

What are the performance conditions?

Performance rights are divided into two tranches:

- 40% of the performance rights are subject to a relative TSR performance hurdle (the "TSR component"); and
- 60% of the performance rights are subject to a performance hurdle based on cash earnings per share("EPS") growth on a compound annual growth basis with target performance consistent with the Company's strategic plan (the "EPS Component").

Further details about each performance hurdle are set out below.

Relative TSR hurdle

TSR is the percentage increase in the Company's share price plus reinvested dividends, expressed as a percentage of the initial investment, and reflects the increase in value delivered to shareholders over the performance period. The relative TSR comparison group is comprised of companies within the ASX Financials sector with a market capitalisation between $40 million and $2 billion as at 31 August 2018, excluding illiquid stocks. The performance period is 1 September 2018 – 31 August 2021. Vesting (if any) will occur in September 2021.

The specific Comparator Group for the FY 2019 LTI award is detailed in the Glossary at the end of this Remuneration Report.

The following vesting schedule shows the proportion of the TSR component that will vest for various performance levels.

TSR ranking relative to the Comparator Group over the performance period	% of TSR component that vests
Below the 50th percentile	Nil
At the 50th percentile	50%
Between 50th and 75th percentiles	Pro rata vesting between 50% and 100%
Between 75th and 90th percentiles	Pro rata vesting between 100% and 125%
At or above the 90th percentile.	125%

Cash EPS growth hurdle

Cash EPS growth is based on cash profits as presented to the market and stated in the notes of the Company's audited statutory accounts and the average number of ordinary shares on issue during the performance period. Growth is measured using the compound annual growth rate (CAGR). The Performance Period is 1 July 2018 to 30 June 2021 with the budget approved by the Board for the financial year ended 30 June 2019 to be used as the base. Vesting (if any) will occur in September 2021.

Cash profits are calculated by adjusting audited statutory profits for trail commission recognised on a net present value basis and excluding non-cash share based remuneration expense.

The following vesting schedule shows the proportion of the EPS component that will vest for various performance levels.

CAGR of cash EPS over the performance period	% of EPS component that vests
Below 3%	Nil
At 3%	25%
Between 3% and 8%	Pro rata vesting between 25% and 100%
At or above 8%.	100%

Remuneration Report continued

What happens if an executive ceases employment?	Executives will forfeit unvested performance rights on cessation of employment with the Company unless the cessation results from death, redundancy, disablement, retirement or other special circumstances, in which case, unvested performance rights may vest at the Board's discretion.
What restrictions apply?	Executives are prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, on vesting allocated shares can only be dealt with in accordance with the Company's Share Trading Policy.
Is there discretion to adjust awards?	As per the Performance Rights Rules, the Board has absolute and unfettered discretion in exercising any power or discretion concerning the Share Rights Plan. If the Board determines that a participant has acted fraudulently or dishonestly; has breached his or her obligations to the Group; or is knowingly involved in a material misstatement of financial statements; any shares to which the participant may have become entitled at the end of the performance period, and any rights held by the participant under the Performance Rights Plan are forfeited by the participant.
What happens if there is a change in control?	As per the Performance Rights Rules, the Board has absolute and unfettered discretion in exercising its power to either lapse or vest some or all unvested performance rights as appropriate to the context of the event.

f) Relationship between remuneration and Mortgage Choice Limited's performance

The CEO and other executive KMP have a significant proportion of their remuneration structured to be dependent on achieving performance based criteria aligned to the Company's financial and strategic objectives. Awards made under the STI and LTI programs all have minimum thresholds that must be achieved to receive any award at all thus ensuring KMP are not rewarded unless value in the enterprise has been enhanced.

The KPIs established as performance criteria for STI and LTI programs are focused primarily on growth in sustainable net profit that directly leads to increased value for shareholders whether distributed as dividends or increasing shareholder value. The STI performance criteria tend to be more short term and operational in nature but designed to push profits forward for the period.

LTI performance criteria are strategically focussed on long term value creation with 60% subject to sustained long term cash profit creation (tranche 1), which is a direct component of value creation, and 40% subject to the relative shareholder value created over the performance period (tranche 2). Further information on the LTI performance criteria is set out below.

Tranche 1: EPS Component

LTI grants made under the Performance Share Plan (PSP) from FY2014 to FY2017 and the Performance Rights Plan (PRP) since FY2018 have been subject to cash EPS growth hurdle. The following table shows the Company's cash EPS results in FY2019 and the previous four financial years:

Table E: Cash EPS for FY 2015 – FY 2019

Financial year	Cash EPS (cents per share)
2015	15.0
2016	16.5
2017	18.1
2018	18.7
2019	11.2

The cash EPS growth hurdle is consistent with the Company's remuneration philosophy and strategic plan, and recognises that increasing cash results is important to our shareholders.

Remuneration Report continued

Tranche 2: TSR Component

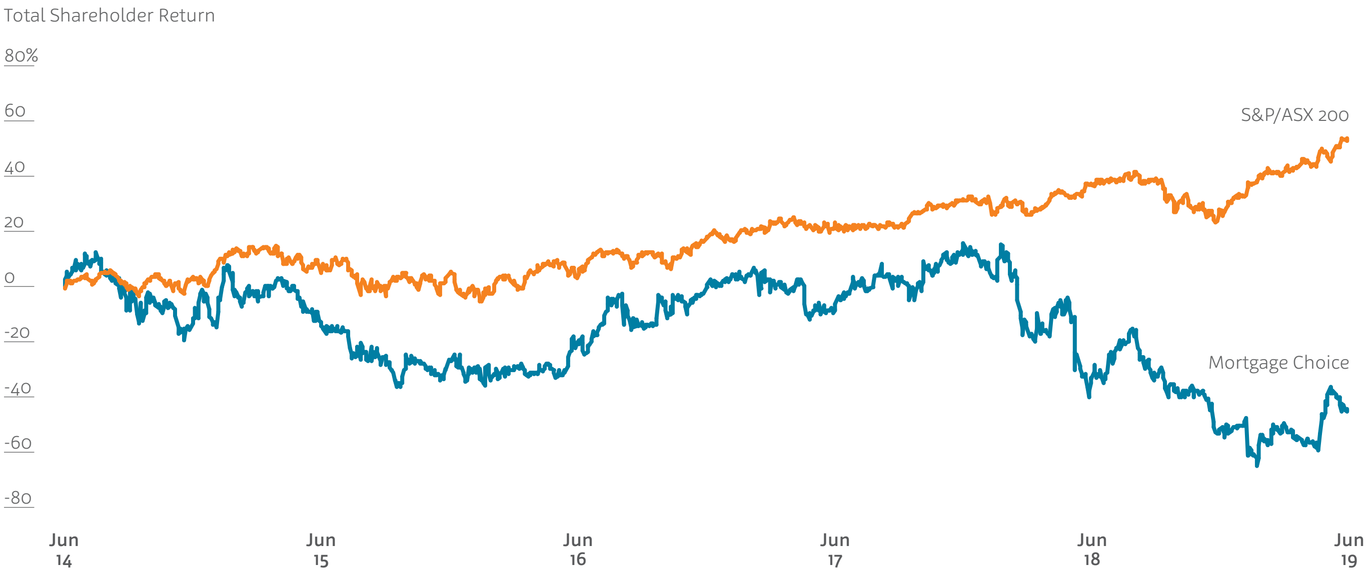
LTI grants made under the PSP from FY 2014 to FY 2017 and the PRP since FY2018 have also been subject to a relative TSR performance hurdle which compares the Company's TSR against the TSRs of comparator groups of companies. TSR is the percentage increase in the Company's share price plus reinvested dividends and reflects the increase in value delivered to shareholders over the period. The following table shows the Company's TSR expressed as a percentage of the opening share price for each period. The table also shows the opening and closing share price and dividends paid in FY 2019 and the previous four financial years:

Table F: Share price movements, dividends and TSR for FY 2015 – FY 2019

Financial year	Opening share price $	Closing share price $	Dividends paid during year ¢	TSR
2015	2.85	2.30	15.5	-14%
2016	2.30	1.95	16.0	-8%
2017	1.95	2.15	17.0	19%
2018	2.15	1.42	18.0	-26%
2019	1.42	1.09	12.0	-15%

The figure below illustrates and compares the Company's TSR performance with the ASX 200 index return performance for the five-year period to 30 June 2019.

Mortgage Choice TSR compared to S&P / ASX 200 Index TSR



Source: Guerdon Associates

g) Non-executive Director remuneration

Remuneration Policy

The Company's remuneration policy for Non-executive Directors aims to ensure it can attract and retain suitably qualified and experienced Directors having regard to:

– the level of fees paid to Non-executive Directors of other major Australian companies;

– the size and complexity of the Company; and

– the role and responsibilities of Directors.

Non-executive Directors do not receive any short-term cash incentives or share-based payments. The chairmen of the Audit Committee, the Remuneration Committee and the Mortgage Choice Financial Planning Pty Ltd Investment Committee receive an additional payment for their role on these committees.

No element of Non-executive Director remuneration is performance-based to preserve the independence and impartiality of Directors.

Fee levels and fee pool

Shareholders set the maximum aggregate fee pool for the Non-executive Directors of the Board at $1,000,000 per annum at the 2016 Annual General Meeting.

Remuneration Report continued

The following table shows the annual fees payable to the Chairman and Non-executive Directors as at 30 June 2019:

Table G: Non-executive Director fees

Role	Fees
Chairman	$145,000
Non-executive Director	$95,000
Fees for Chairman of the Audit and Risk Committee	$10,000
Fees for Chairman of the Remuneration Committee	$10,000
Fees for Chairman of Mortgage Choice Financial Planning Pty Ltd Investment Committee	$20,000

The Board reviews fees paid to Non-executive Directors periodically. There were no changes to the level of Directors fees in FY 2019.

Non-executive Directors do not receive retirement allowances. Superannuation contributions, are paid on Non-executive Directors' remuneration in addition to the fees above as required under the Australian superannuation guarantee legislation, unless there is a specific individual exemption.

h) Statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth) for the 2018 and 2019 financial years for KMP and has been prepared in accordance with the Australian Accounting Standards.

Table H: Statutory remuneration table

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments		
Name	Cash Salary and Fees $	STI $	Employee Entitlements $	Non-monetary Benefits $	Super-annuation $	Long Service Leave $	Deferred STI and Other $	Performance Shares and Rights $	Total $
Non-Executive Directors									
V L Allen, Chairman									
FY2019	145,000	—	—	—	13,775	—	—	—	158,775
FY2018	148,123	—	—	—	14,072	—	—	—	162,195
S J Brennan [1]									
FY2019	115,000	—	—	—	10,925	—	—	—	125,925
FY2018	29,149	—	—	—	2,769	—	—	—	31,918
S J Clancy [2]									
FY2019	105,000	—	—	—	9,975	—	—	—	114,975
FY2018	96,295	—	—	—	9,148	—	—	—	105,443
D Chandran (from 20 February 2019 to 30 June 2019)									
FY2019	34,224	—	—	—	3,251	—	—	—	37,475
A C Gale [3]									
FY2019	113,150	—	—	—	—	—	—	—	113,150
FY2018	29,082	—	—	—	—	—	—	—	29,082
P G Higgins									
FY2019	95,000	—	—	—	9,025	—	—	—	104,025
FY2018	95,000	—	—	—	9,025	—	—	—	104,025
R G Higgins									
FY2019	95,000	—	—	—	9,025	—	—	—	104,025
FY2018	95,000	—	—	—	9,025	—	—	—	104,025
S C Jermyn (from 1 July 2018 to 19 June 2019) [4]									
FY2019	96,667	—	—	—	9,183	—	—	—	105,850
FY2018	96,295	—	—	—	9,148	—	—	—	105,443

Remuneration Report continued

Table H: Statutory remuneration table continued

	Short-term benefits				Post-employment benefits	Long-term benefits	Share-based payments		
Name	Cash Salary and Fees $	STI $	Employee Entitlements $	Non-monetary Benefits $	Super-annuation $	Long Service Leave $	Deferred STI & Other $	Performance Shares & Rights $	Total $
Other key management personnel									
S R Mitchell [5]									
FY2019	550,000	—	—	4,928	20,531	15,615	99,658	62,355	753,087
FY2018	375,077	127,653	5,635	5,066	20,049	49,846	4,379	33,004	620,709
I J Parkes (from 15 October 2018 to 30 June 2019)									
FY2019	220,417	—	8,167	2,091	15,399	—	—	14,029	260,103
N C Rose-Innes [6]									
FY2019	337,346	—	(16,566)	4,928	20,531	5,959	—	35,656	387,854
FY2018	327,230	75,624	13,681	5,186	20,049	9,145	—	30,152	481,067
M J McCarney [6]									
FY2019	260,991	—	2,353	4,928	20,531	5,473	—	27,026	321,302
FY2018	240,975	58,548	(574)	4,211	20,049	5,076	—	20,802	349,087
E A Dupont-Brown [6]									
FY2019	228,426	—	3,414	4,907	20,531	2,290	—	19,207	278,775
FY2018	219,103	47,632	5,626	—	20,049	837	—	12,147	305,394
T J Milnes [6]									
FY2019	227,154	—	254	—	20,531	(5,550)	—	19,330	261,719
FY2018	209,223	44,929	5,528	—	20,049	8,663	—	14,304	302,696
M J Pitton [6]									
FY2019	177,794	—	5,242	4,426	19,002	3,204	—	12,667	222,335
FY2018	158,643	27,477	(8,261)	4,869	18,840	2,827	—	9,092	213,487
V C ten Krooden									
FY2019	195,000	—	4,542	—	20,531	3,183	—	5,611	228,867
FY2018	173,567	38,173	(1,433)	—	19,532	1,177	—	—	231,016
Totals									
FY2019	2,996,169	—	7,406	26,208	222,746	30,174	99,658	195,881	3,578,242
FY2018	2,292,762	420,036	20,202	19,332	191,804	77,571	4,379	119,501	3,145,587

1 Ms S J Brennan is the Chairman of the Mortgage Choice Financial Planning Investment Committee and receives fees in addition to her base Non-executive Director fees for this role – see section g) for further details.

2 Mr S J Clancy is the Chairman of the Remuneration Committee and receives fees in addition to his base Non-executive Director fees for this role – see section g) for further details.

3 Mr A C Gale was appointed Chairman of the Audit Committee on 20 August 2018 and receives fees in addition to his base Non-executive Director fees for this role – see section g) for further details. Mr Gale has reached his maximum superannuation contribution and has requested he receives his SGC as additional salary.

4 Mr S C Jermyn resigned as Chairman of the Audit Committee on 20 August 2018 and received fees in addition to his base Non-executive Director fees for this role – see section g) for further details.

5 Share based payments (Deferred STI and other) relating to Ms S R Mitchell include 2 components:

a) 90,000 performance rights granted to the CEO to focus on critical medium term strategic objectives necessary for successful transition from the prior broker remuneration model. The grant vests in two equal tranches in April 2019 and April 2020. The performance criteria for the April 2019 tranche was the implementation of the new broker and adviser remuneration structures. These right vested during the year. The second tranche, due to vest in April 2020, has performance criteria relating to network engagement measures and continued service.

b) Deferred STI of $33,151 in relation to FY 2018 being 50% of the total STI granted or to be granted as share rights with 50% due to vest in 12 months and 50% to vest in 24 months. The terms of the performance rights are described in section d).

6 Cash salary includes a one-off payment to compensate KMPs for changes to the LTI Plan.

Remuneration Report continued

The following table shows the relative proportion of remuneration that each executive received during FY 2019 and whether it is fixed remuneration or performance based remuneration.

Table I: Remuneration mix

	Fixed/service based remuneration				Performance based remuneration		
Name	Fixed remuneration %	Share based %	Commencement share rights[1] %	Total %	Cash ST %[1]	Share based %	Total %
S R Mitchell	78%	—	11%	89%	—	11%	11%
I J Parkes	95%	—	—	95%	—	5%	5%
N C Rose-Innes	91%	—	—	91%	—	9%	9%
M J McCarney	92%	—	—	92%	—	8%	8%
E A Dupont-Brown	93%	—	—	93%	—	7%	7%
T J Milnes	93%	—	—	93%	—	7%	7%
M J Pitton	94%	—	—	94%	—	6%	6%
V C ten Krooden	98%	—	—	98%	—	2%	2%

1 Footnote 5a) in Table H describes the terms of this grant.

Details of share-based remuneration

The key terms of performance shares granted as LTI awards to executive KMP that were tested during, or remain on foot at the end of, FY 2019 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year:

Table J: Performance shares on foot or tested during FY 2019

Grant date	Vesting date	Value per performance share at grant date[1]	% Vested
FY 2016 LTI grants			
17 September 2015	14 September 2018	$2.01	100
17 September 2015	14 September 2018	$1.19	0
FY 2017 LTI grants			
25 October 2016	14 September 2019	$2.28	
25 October 2016	14 September 2019	$1.30	

1 The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of shares granted during the year as part of remuneration.

The key terms of performance rights granted that were tested during, or remain on foot at the end of, FY 2019 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year.

Table K: Performance rights on foot or tested during FY 2019

Grant date	Vesting date	Value per performance right at grant date[1]	% Vested
Commencement grant			
5 November 2018	3 April 2019	$1.26	100
5 November 2018	3 April 2020	$1.26	
FY 2018 deferred STI award			
7 September 2018	14 September 2019	$1.50	
7 September 2018	14 September 2020	$1.50	
FY 2018 performance rights			
6 October 2017	14 September 2020	$1.78	
6 October 2017	14 September 2020	$1.40	
FY 2019 performance rights			
28 November 2018	14 September 2021	$1.23	
28 November 2018	14 September 2021	$0.81	

1 The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of shares granted during the year as part of remuneration.

Remuneration Report continued

Details of remuneration paid, vested or forfeited during FY 2019

The percentage of the available grant that was paid, vested or forfeited in FY 2019 is set out below.

Table L: Remuneration forfeited and vested during FY 2019 and outstanding at 30 June 2019

	Cash STI		LTI (Performance shares or rights)					
Name	Potential FY 2019 bonus paid %	Potential FY 2019 bonus forfeited %	Financial year granted	Vested %	Forfeited %	Financial years in which shares or rights may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest [1] $
S R Mitchell	—	100	2019	—	—	30/6/22	nil	188,080
	—	—	2019	—	—	30/6/20	nil	56,475
	—	—	2019	100	—	—	—	—
	—	—	2018	—	—	30/6/21	nil	101,487
	—	—	2018	—	—	30/6/20	nil	33,200
	—	—	2017	—	—	30/6/20	nil	76,408
	—	—	2016	50	50	—	—	—
I J Parkes	—	100	2019	—	—	30/6/22	nil	66,683
N C Rose-Innes	—	100	2019	—	—	30/6/22	nil	66,248
	—	—	2018	—	—	30/6/21	nil	65,944
	—	—	2017	—	—	30/6/20	nil	73,787
	—	—	2016	50	50	—	—	—
M J McCarney	—	100	2019	—	—	30/6/22	nil	51,275
	—	—	2018	—	—	30/6/21	nil	50,559
	—	—	2017	—	—	30/6/20	nil	56,575
	—	—	2016	50	50	—	—	—
E A Dupont-Brown	—	100	2019	—	—	30/6/22	nil	36,601
	—	—	2018	—	—	30/6/21	nil	36,428
	—	—	2017	—	—	30/6/20	nil	40,995
	—	—	2016	50	50	—	—	—
T J Milnes	—	100	2019	—	—	30/6/22	nil	37,497
	—	—	2018	—	—	30/6/21	nil	35,803
	—	—	2017	—	—	30/6/20	nil	40,289
	—	—	2016	50	50	—	—	—
M J Pitton	—	100	2019	—	—	30/6/22	nil	24,065
	—	—	2018	—	—	30/6/21	nil	23,948
	—	—	2017	—	—	30/6/20	nil	27,104
	—	—	2016	50	50	—	—	—
V C ten Krooden	—	100	2019	—	—	30/6/22	nil	26,673

1 The maximum value is based on the fair value at grant date using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method.

Remuneration Report continued

Legacy performance awards

Full details of prior year equity awards are set out in the Remuneration Report for the year in which the award was granted.

Service agreements

Non-executive Directors appointed to the Board enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the Director.

Remuneration and other terms of employment for the CEO, Susan Mitchell, and other executives are set out in their respective letters of employment and employment contracts. The employment terms do not prescribe the duration of employment for executives. The periods of notice required to terminate employment are set out below:

a) The employment contract of Susan Mitchell is terminable by either the Company with 12 months' notice or the executive with 6 months' notice.

b) The employment contracts of all other executive KMP are terminable by either the Company or the executive with one or three months' notice.

No provision is made in the contracts for termination payments other than amounts paid in respect of notice of termination.

KMP equity holdings

a) Performance shares

The movements in performance shares held by executive KMP and their related parties are set out below.

Table M: Movements in performance shares during FY 2019

	Balance at the start of the year	Granted as compensation	Value granted $	Vested	Value at vesting date $	Forfeited	Balance at the end of the year
Executive KMP							
Susan Mitchell	89,053	—	—	(23,184)	33,849	(23,184)	42,685
Ian Parkes	—	—	—	—	—	—	—
Neill Rose-Innes	83,355	—	—	(21,066)	30,756	(21,066)	41,223
Melissa McCarney	60,214	—	—	(14,304)	20,884	(14,304)	31,606
Emma Dupont-Brown	41,676	—	—	(9,287)	13,559	(9,287)	23,102
Tania Milnes	42,066	—	—	(9,779)	14,277	(9,779)	22,508
Marie Pitton	27,478	—	—	(6,168)	9,005	(6,168)	15,142
Vincent ten Krooden	—	—	—	—	—	—	—

b) Performance rights

The movements in performance rights held by executive KMP and their related parties are set out below.

Table N: Movements in performance rights during FY 2019

	Balance at the start of the year	Granted as compensation	Value granted [1] $	Vested	Value at vesting date $	Forfeited	Balance at the end of the year
S R Mitchell *(Commencement)*	—	90,000	112,950	(45,000)	44,223	—	45,000
S R Mitchell *(deferred STI)*	19,052	—	—	—	—	—	19,052
Share rights plan							
S R Mitchell	41,946	177,100	188,080	—	—	—	219,046
I J Parkes	—	62,790	66,683	—	—	—	62,790
N C Rose-Innes	40,506	62,380	66,247	—	—	—	102,886
M J McCarney	31,056	48,282	51,275	—	—	—	79,338
E A Dupont-Brown	22,376	34,464	36,600	—	—	—	56,840
T J Milnes	21,992	35,308	37,497	—	—	—	57,300
M J Pitton	14,710	22,660	24,065	—	—	—	37,370
V C ten Krooden	—	25,116	26,674	—	—	—	25,116

1 The value of commencement performance rights granted to Susan Mitchell during the year was $1.255 each. The unit value of performance rights subject to EPS hurdles granted during the year under the share rights plan was $1.23. The unit value of performance rights subject to TSR hurdles granted during the year under the share rights plan was $0.81.

Remuneration Report continued

c) Share holdings

The number of shares in the Company held during the financial year by each KMP, including their close family members and their controlled entities, are set out below.

Table O: Movements in KMP shareholdings during FY 2019

Name	Balance at the start of the year	Received during the year on the vesting of performance rights [1]	Received during the year on the vesting of performance shares	Purchases/sales during the year	Balance at the end of the year
Non-executive Directors					
Vicki Allen	60,000	—	—	—	60,000
Sarah Brennan	—	—	—	—	—
Sean Clancy	120,000	—	—	—	120,000
Andrew Gale	—	—	—	—	—
Peter Higgins	259,253	—	—	—	259,253
Rod Higgins	15,380,212	—	—	—	15,380,212
Dharmendra Chandran	—	—	—	—	—
Steve Jermyn [2]	2,500,000	—	—	—	N/A
Executive KMP					
Susan Mitchell	112,208	48,068	23,184	—	183,460
Ian Parkes	—	—	—	—	—
Neill Rose-Innes	63,341	—	21,066	—	84,407
Melissa McCarney	—	—	14,304	—	14,304
Emma Dupont-Brown	—	—	9,287	—	9,287
Tania Milnes	124,072	—	9,779	—	133,851
Marie Pitton	1,558	—	6,168	—	7,726
Vincent ten Krooden	—	—	—	—	—

1 Shares issued on vesting of 45,000 performance rights. Additional shares represent the value of dividends over the vesting period.
2 For S Jermyn, the shareholdings disclosed are for the period for which he was a Non-executive Director of the Company.

Remuneration Report continued

i) Glossary

The following table defines terms used throughout this Remuneration Report:

Table P: Glossary of terms used

Term	Definition
Comparator group	Pinnace Investment Management Group Ltd, Genworth Mortgage Insurance Australia Ltd, Credit Corp Group Ltd, Navigator Global Investments Ltd, Moelis Australia Ltd, AUB Group Ltd, Eclipx Group Ltd, HUB24 Ltd, FlexiGroup Australia Ltd, ClearView Wealth Australia Ltd, Scottish Pacific Group Ltd, OFX Group Ltd, EQT Holdings Ltd, Evans Dixon Ltd, IMF Bentham Ltd, MyState Ltd, Centuria Capital Ltd, Money3 Corp Ltd, Australian Finance Group Ltd, Zip Co Ltd, Pacific Current Group Ltd, Bell Financial Group Ltd, Credible Labs Inc, Auswide Bank Ltd, Onevue Holdings Ltd, Pioneer Credit Ltd, Euroz Ltd, Australian Ethical Investment Ltd, FSA Group Ltd, Kina Securities Ltd, Fiducian Group Ltd, APN Property Group Ltd, Blue Sky Alternative Investments Ltd, Axsesstoday Ltd, Mainstream Group Holdings Ltd, Managed Accounts Holdings Ltd, Raiz Invest Ltd, Freedom Insurance Group Ltd.
KMP	Key management personnel, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors. KMP includes the Executives and Non-executive Directors as detailed on page 18.
KPI	Key Performance Indicator
LTI	Long Term Incentive
Performance right	A performance right is a right to one Mortgage Choice share, plus the number of shares that would have resulted from reinvestment of dividends paid during the vesting period on the shares acquired on vesting of the rights. In certain circumstances the Board has a discretion to pay a cash equivalent amount in lieu of an allocation of shares. Performance rights are used to deliver the CEO's deferred STI awards and LTI awards to executive KMP. Prior to FY2019, KMP LTI awards only entitled the holder to one share per performance right.
Performance share	Performance shares are shares in Mortgage Choice that are held in an employee share plan trust. From: 2017, LTI awards to executive KMP are delivered using performance rights.
PSP	Prior to 2017, the Performance Share Plan was used to make LTI awards to executives.
PRP	The Performance Rights Plan is used to make LTI awards to executives.
STI	Short Term Incentive
VWAP	Volume weighted average price

Insurance of Directors and Officers

Insurance premiums were paid for the year ended 30 June 2019 in respect of Directors' and Officers' liability and legal expenses for Directors and Officers of the Company and all controlled entities. The insurance contract prohibits disclosure of the premium paid. The insurance premiums relate to:

- Costs and expenses incurred by relevant Directors and Officers in defending any proceedings; and
- Other liabilities that may arise from their position, with the exception of conduct involving dishonesty, wrongful acts, or improper use of information or position to gain personal advantage.

The Company has entered into deeds of access, insurance and indemnity with the Directors, the Chief Executive Officer and Company Secretary. The indemnity is subject to the restrictions prescribed in the Corporations Act. Subject to the terms of the deed, it also gives each executive a right of access to certain documents and requires the Company to maintain insurance cover for the executives.

No indemnities were paid to current or former officers or auditors during or since the end of the year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company or Group are important. Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for non-audit services provided during the year are set out in Note 19.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below in Note 19, did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

Rounding

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of the Directors.

Vicki Allen
Chairman

Sydney
21 August 2019

Auditors Independence Declaration

For the year ended 30 June 2019

Deloitte.

Deloitte Touche Tohmatsu
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Australia

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www.deloitte.com.au

The Board of Directors
Mortgage Choice Limited
Level 10,100 Pacific Highway
North Sydney NSW 2060

21 August 2019

Dear Board Members

Mortgage Choice Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mortgage Choice Limited.

As lead audit partner for the audit of the financial statements of Mortgage Choice Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants

Annual Financial Report — 30 June 2019

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Mortgage Choice Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Mortgage Choice Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Mortgage Choice Limited
Level 10, 100 Pacific Highway
North Sydney NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 21 August 2019.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All financial statements and other information are available in the Shareholders section of Company's website: **www.mortgagechoice.com.au.**

Consolidated Income Statement

For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue	5		
Origination commission		**57,858**	70,015
Trailing commission excluding discount unwind		**82,642**	106,840
Trailing commission discount unwind		**17,663**	17,905
Diversified products commission		**4,677**	7,265
Insurance trailing commission exc. discount unwind		**2,480**	—
Insurance trailing commission discount unwind		**913**	—
Financial Planning income		**7,087**	11,290
Franchise income		**1,054**	921
Interest		**600**	577
Sponsorship and other income		**2,381**	2,995
		177,355	217,808
Direct costs			
Origination commission		**(44,380)**	(48,839)
Trailing commission excluding discount unwind		**(58,682)**	(102,668)
Trailing commission discount unwind – finance costs		**(12,639)**	(11,048)
Diversified products commission		**(3,400)**	(5,513)
Insurance trailing commission exc. discount unwind		**(2,048)**	—
Insurance trailing commission discount unwind		**(770)**	—
Financial Planning commission		**(5,944)**	(9,063)
Gross profit		**49,492**	40,677
Operating Expenses			
Sales		**(9,591)**	(12,458)
Technology		**(5,234)**	(4,992)
Marketing		**(6,403)**	(8,675)
Corporate		**(8,331)**	(8,705)
Profit before income tax		**19,933**	5,847
Income tax expense	6	**(6,209)**	(1,609)
Profit for the period from continuing operations		**13,724**	4,238
Net profit attributable to the owners of Mortgage Choice Limited		**13,724**	4,238

Earnings per share		Cents	Cents
From continuing operations			
Basic earnings per share	26	**11.0**	3.4
Diluted earnings per share	26	**10.9**	3.4

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	2019 $'000	2018 $'000
Profit for the year	**13,724**	4,238
Other comprehensive income	—	—
Total comprehensive income attributable to the owners of Mortgage Choice Limited	**13,724**	4,238

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents		**1,927**	3,353
Trade and other receivables	7	**13,750**	104,038
Contract assets	7	**98,519**	—
Current tax assets		**—**	112
Total current assets		**114,196**	107,503
Non-current assets			
Receivables	7	**4,220**	275,685
Contract assets	7	**277,949**	—
Property, plant and equipment	8	**717**	686
Intangible assets	10	**10,132**	8,562
Total non-current assets		**293,018**	284,933
Total assets		**407,214**	392,436
Liabilities			
Current liabilities			
Trade and other payables	11	**82,043**	77,211
External borrowings	2	**2,500**	—
Current tax liabilities		**510**	—
Provisions	12	**1,339**	1,258
Total current liabilities		**86,392**	78,469
Non-current liabilities			
Trade and other payables	13	**201,396**	196,711
Deferred tax liabilities	14	**32,168**	30,913
Provisions	12	**774**	691
Total non-current liabilities		**234,338**	228,315
Total liabilities		**320,730**	306,784
Net assets		**86,484**	85,652
Equity			
Contributed equity	15	**8,097**	7,764
Reserves	16(a)	**1,379**	1,309
Retained profits	16(b)	**77,008**	76,579
Total equity		**86,484**	85,652

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2017		**7,277**	**2,075**	**94,836**	**104,188**
Total comprehensive income for the year as reported in the 2018 financial statements		—	—	4,238	4,238
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	15	487	(487)	—	—
Dividends paid	17	—	—	(22,495)	(22,495)
Employee share plans – value of employee services	27	—	(279)	—	(279)
		487	(766)	(22,495)	(22,774)
Balance at 30 June 2018		**7,764**	**1,309**	**76,579**	**85,652**
Adjustment for adoption of AASB15	1	—	—	1,705	1,705
Balance as at 1 July 2018		**7,764**	**1,309**	**78,284**	**87,357**
Total comprehensive income for the year as reported in the 2019 financial statements		—	—	13,724	13,724
Contributions of equity net of transaction costs	15	333	(333)	—	—
Dividends paid	17	—	—	(15,000)	(15,000)
Employee share plans – value of employee services	27	—	403	—	403
		333	70	(15,000)	(14,597)
Balance at 30 June 2019		**8,097**	**1,379**	**77,008**	**86,484**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**195,400**	211,084
Payments to suppliers and employees (inclusive of goods and services tax)		**(176,201)**	(178,702)
		19,199	32,382
Income taxes paid		**(5,064)**	(10,155)
Net cash inflow from operating activities	25	**14,135**	22,227
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		**(3,755)**	(4,137)
Loans to franchisees net of repayments		**150**	(1,502)
Proceeds from sale of property, plant and equipment		**—**	37
Interest received		**600**	577
Net cash (outflow) from investing activities		**(3,005)**	(5,025)
Cash flows from financing activities			
External borrowings		**2,500**	—
Interest paid		**(56)**	—
Dividends paid to Company's shareholders		**(15,000)**	(22,495)
Net cash (outflow) from financing activities		**(12,556)**	(22,495)
Net increase/(decrease) in cash and cash equivalents		**(1,426)**	(5,293)
Cash and cash equivalents at the beginning of the financial year		**3,353**	8,646
Cash and cash equivalents at the end of year		**1,927**	3,353

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Mortgage Choice Limited and its subsidiaries.

A) Basis of preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB), and comply with other requirements of the law. The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Compliance with IFRS

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB. Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

Amendments to Accounting Standards and new Interpretations that are mandatorily effective for the current reporting period.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the accounting period that begins on or after 1 July 2018.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

- AASB 9 *Financial Instruments* and related amending Standards
- AASB 15 *Revenue from Contracts with Customers* and related amending Standards
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions.*

Impact of the application of AASB 9 Financial Instruments and related amending Standards

AASB 9 introduced new requirements for:

- the classification and measurement of financial assets and financial liabilities;
- impairment of financial assets; and
- general hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

Classification and measurement of financial assets and financial liabilities

Under AASB 9, on initial recognition, a financial asset is classified and measured at:

- amortised cost;
- fair value through other comprehensive income (FVTOCI) – debt instrument
- fair value through other comprehensive income (FVTOCI) – equity instrument
- fair value through profit or loss (FVTPL).

The new standard eliminates the previous AASB 139 financial asset categories.

All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

On 1 July 2018 (the date of initial application of AASB 9), the Group's management assessed which business models apply to the financial assets held by the Group and the contractual cash flow characteristics of the financial assets and has classified its financial instruments into the appropriate AASB 9 categories as identified in the table below.

Financial assets at amortised cost

The amortised cost of a financial asset is:

- the amount at which the financial asset is measured at initial recognition;
- minus the principal repayments;
- plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount; and
- adjusted for any loss allowance.

Note 1 Summary of significant accounting policies continued

The following accounting policies apply to recognition and subsequent measurement of financial assets and liabilities on adoption of AASB 9 prior to the application off the new credit loss model:

Financial assets	Original classification under AASB 139	New classification under AASB 9	Carrying amount under AASB 139 as at 30 June 2018 $'000	Carrying amount under AASB 9 as at 1 July 2018 $'000
Cash and cash equivalents	Amortised cost	Amortised cost	$3,353	$3,353
Trade receivables	Loans and receivables	Amortised cost[a]	$11,751	$11,751
Net present value of future mortgage trailing commissions receivable	Loans and receivables	Contract asset under AASB 15 carried at expected value[b]	$360,913	b
Franchisee receivables	Loans and receivables	Amortised cost[a]	$6,384	$6,384
Other receivables	Loans and receivables	Amortised cost[a]	$97	$97
Financial liabilities				
Net present value of future mortgage trailing commissions payable	Amortised cost	Amortised cost	$260,521	$260,521
Net present value of future insurance trailing commissions payable	Nil amount as at 30 June 2018	Amortised cost	Nil	$13,370(c)

a) When these cash flows consist solely of payments of principal and interest on the principal amount outstanding, the Group has classified and measured them at amortised cost.
b) The future mortgage trailing commission receivable is now classified as a contract asset under AASB 15. The value of net present value of future mortgage trailing commission receivable is unchanged on transition at $360,913,000.
c) Future insurance trailing commissions payable have been recognised as a result of adoption of AASB 15. Refer to impact of AASB 15 section of this note.

Impairment

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' (ECL) model. This applies to financial assets measured at amortised cost and debt investments at fair value through other comprehensive income (FVTOCI). The Group does not hold any debt or equity investments at FVTOCI.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls and consists of three components:

1) Probability of default (PD): represents the possibility of a default over the next 12 months and remaining lifetime of the financial asset;
2) A loss given default (LGD): expected loss if a default occurs, taking into consideration the mitigating effect of collateral assets and time value of money;
3) Exposure at default (EAD): the expected loss when a default takes place.

AASB 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument has not increased significantly since initial recognition (except for a purchase or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to a 12 month ECL.

AASB 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. Specifically, AASB 9 requires the Group to recognise a loss allowance for expected credit losses on:

– debt investments measured subsequently at amortised cost or at FVTOCI,
– lease receivables,
– trade receivables and contract assets, and
– financial guarantee contracts to which the impairment requirements of AASB 9 apply.

The Group has applied a three stage model to determine the loss allowances for any change in risk since initial recognition:

Stage 1: 12 month ECL – At initial recognition a collective assessment is done for classes of financial assets with the same credit risk based on the PD within the next 12 months and the LGD's with consideration to forward looking economic indicators.

Stage 2: Lifetime ECL – When there has been a significant change in credit risk since initial recognition, a lifetime ECL is recognised taking into account the cash flows for the remaining life of the asset.

Stage 3: Lifetime ECL – When a financial asset is credit impaired a lifetime ECL is recognised as a collective or specific provision with interest calculated on the amortised cost instead of the carrying amount.

Note 1 Summary of significant accounting policies continued

Mortgage Choice has the following major financial asset classes that need to be considered.

Asset	Assessment
Cash	As all cash is held with major financial institutions (ADI)'s and there has been no history of loss, it has been determined that ECL would not be material and consequently has not been recognised.
Commissions receivable	Upfront and current trail commission receivables are due from a combination of highly rated major lenders and smaller banks and non-bank lenders. There has been no historical instances where a loss has been incurred, including through the GFC. ECL would not be material and consequently has not been recognised.
Future Trail commission receivable	Future trail commission receivables are due from a combination of highly rated major lenders and smaller banks, non-bank lenders and insurance companies. There has been no historical instances where a loss has been incurred, including through the GFC. ECL would not be material and consequently has not been recognised.
Franchisee loans	As at 30 June 2019, the group has outstanding loan receivables from various franchisees totalling \$6.1m (\$6.3m at 30 June 2018). All the loans are secured against the franchisees trail book. There have not been any material historical defaults on these loans. The Group has assessed that there is sufficient collateral for each of the loans such that any loss given default would be insignificant. Therefore, ECL would not be material and consequently has not been recognised.

Transition

The Group has taken the exemption to not restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for FY 2018 does not generally reflect the requirements of AASB 9 but rather those of AASB 139.

Impact of the application of AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group has adopted AASB 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Therefore, comparative periods have not been restated.

AASB 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

Revenue to the Group arises mainly from mortgage broking, financial planning advice and placement of life insurance. To determine whether to recognise revenue, the Group follows a 5 step process:

1) Identifying the contract with a customer
2) Identifying the performance obligations
3) Determining the transaction price
4) Allocating the transaction price to the performance obligations
5) Recognising revenue when or as performance obligations are satisfied

The Group often enters into transactions that will give rise to different streams of fees, for example, financial advice and placement of life insurance. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Under AASB 15, revenue is recognised when the Group satisfies performance obligations by transferring the promised services to its customers. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. Below is a summary of the major services provided and the Group's accounting policy on recognition as a result of adopting AASB 15.

Note 1 Summary of significant accounting policies continued

Revenue item	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15	Summary of changes in accounting policy
Origination commission	The performance obligation for the Group is to introduce successful applicants to the lender. The performance obligations are satisfied at the point in time the loan is advanced by the lender. Cash is received in the month following settlement of the loan. Commissions on loans that are discharged within two years will be subject to clawback in full or part.	Origination commissions received by the Group are recognised as revenue on settlement of the loan, net of estimated clawbacks.	Once the Group has referred a successful loan application to the lender, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the loan is settled with the lender. The transaction price is adjusted for any expected clawbacks using the expected value method. The transaction price is a percentage of the settlement value of the loan.	AASB 15 did not have a significant impact on the Group's accounting policies.
Trailing commission	The performance obligation for the Group is to introduce successful applicants to the lender. The performance obligations are satisfied at the point in time the loan is advanced by the lender. The Group has no further performance obligations after this. Cash is received each month based on the loan balance of the previous month. Trail ceases once the loan is discharged.	Trailing commission revenue has historically been recognised under AASB 139. On initial recognition at settlement, trailing commission revenue and the related receivable are recognised at fair value being the net present value of the expected future trailing commissions to be received. The carrying amounts of the receivable and payable are adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective interest rate.	Once the Group has referred a successful loan application to the lender, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the loan is settled with the lender. On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration. A significant financing component is also involved when determining this variable consideration. As such, the contract asset is adjusted by recalculating the net present value of estimated future cash flows at the original effective interest rate. The transaction price is a percentage of the expected outstanding balance of the loan.	With the introduction of AASB 15, trailing commission is now accounted for under the revenue standard, instead of the financial instruments standard. However, no material change occurs from AASB 139 to AASB 15 as the approach to estimating the expected value of the trailing commission is in line with the approach under AASB 139.

Note 1 Summary of significant accounting policies continued

Revenue item	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15	Summary of changes in accounting policy
Diversified commission	Diversified commissions represent origination and trailing commission on non-mortgage products including general insurance and product referral commissions. The Group's performance obligations are to refer successful applications to the lender or provider. The performance obligations are satisfied at the point in time the application is accepted by the lender or provider. Cash for upfront revenue is received in the month following settlement of the loan or writing of the insurance product. Cash for trail revenue is received each month based on the loan balance of the previous month. Trail ceases once the loan is discharged.	Revenue is recognised when the commissions are received or receivable. Trailing commission revenue has historically been recognised under AASB 139. On initial recognition at settlement, trailing commission revenue and the related receivable are recognised at fair value being the net present value of the expected future trailing commissions to be received. The carrying amounts of the receivable and payable are adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective interest rate.	Once the Group has referred a successful application to the lender or provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time. The transaction price is a percentage of the settlement value of the loan or policy value of the insurance product or expected outstanding balance of the loan or policy value of the insurance product.	AASB 15 did not have a significant impact on the Group's accounting policies.
Financial planning income – advice	The performance obligations for the Group are to provide initial advice through the preparation and provision of a Statement of Advice (SOA). As such, performance obligations have been satisfied at a point in time, being when the SOA has been provided.	Revenue from the provision of financial services is recognised at the time the service is provided.	Revenue is recognised at a point in time the advice is delivered to the customer.	AASB 15 did not have a significant impact on the Group's accounting policies.
Financial planning income – ongoing service	Each ongoing service package that the Group offers contains a list of distinct services to be provided over an annual period. However, these services have the same pattern of transfer and each performance obligation will be recognised over time. As such, these services will be recognised as a bundle of services over time. Cash is received either annually in advance or monthly.	Revenue from the provision of financial services is recognised over time.	Annual ongoing service revenue is recognised over a period of time. A time elapsed method is used to measure progress towards completion. On average the entity provides services to customers evenly throughout the year and therefore recognises revenue accordingly. The transaction price is based on the service package provided and is paid annually or monthly.	AASB 15 did not have a significant impact on the Group's accounting policies.

Note 1 Summary of significant accounting policies continued

Revenue item	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15	Summary of changes in accounting policy
Financial Planning income – life insurance upfront commission	The Group's performance obligations are to introduce or refer successful insurance policy applications. The performance obligations are therefore satisfied at the point in time the policy is placed by the provider. Cash is received in the month the policy is written or the following month.	Revenue is recognised at the point in time the policy is placed by the provider.	Once the Group has referred a successful insurance application to the provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the policy is placed by the provider. The transaction price is a percentage of the policy value of the insurance product.	AASB 15 did not have a significant impact on the Group's accounting policies.
Insurance trailing commission	The Group's performance obligations are to introduce or refer successful insurance policy applications. The performance obligations are therefore satisfied at the point in time the policy is placed by the provider. Cash is received each month based on the premium paid by the client in the previous month. Trail ceases once the policy is terminated.	Revenue is recognised when the life insurance trailing commissions are received or receivable	Once the Group has referred a successful insurance application to the insurance provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the policy is placed by the provider. On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration. A significant financing component is also involved when determining this variable consideration. As such, the contract asset is adjusted by recalculating the net present value of estimated future cash flows at the original effective interest rate. The transaction price is a percentage of the expected policy value of the insurance product.	Under AASB 118 revenue was recognised on receipt whereas under AASB 15, due to performance obligations being satisfied at a point in time, the net present value of all future revenue is estimated and recognised when the policy is placed by the provider.

Note 1 Summary of significant accounting policies continued

Revenue item	Nature and timing of satisfaction of performance obligations	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15	Summary of changes in accounting policy
Sponsorship and other income	Each sponsorship package offered by the Group contains a list of distinct services to be provided over an annual period. The key services to be provided relate to conference and workshops held by the Company. Once the relevant conference or workshop has been held, the performance obligation is satisfied. Cash is received in the form of an annual package, paid upfront.	Other income includes contributions from lenders towards conferences and workshops which are recognised as income at a point in time in the period the conference or workshop is held.	Revenue is recognised at a point in time the conference or workshop is delivered.	AASB 15 did not have a significant impact on the Group's accounting policies.

The impact of these changes on the Group's retained earnings is as follows:

	Effect on Retained Earnings $'000
Opening balance under AASB 139 and AASB 118	**76,579**
Increase for initial recognition of insurance trail receivable	15,806
Decrease for initial recognition of insurance trail payable	(13,370)
Impact of first time adoption of AASB 9	—
Impact before tax effect	**2,436**
Tax effect	(731)
Total impact	**1,705**
Opening balance under AASB 9 and AASB 15	**78,284**

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

B) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above and at each reporting date.

Note 1 Summary of significant accounting policies continued

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

ii) Employee Share Trust

The Group has formed two trusts to administer the Group's employee share scheme. These trusts are consolidated as the substance of the relationship is that the trusts are controlled by the Group.

Shares held by the employee share scheme are disclosed as treasury shares and deducted from contributed equity in both the consolidated and company accounts.

C) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

D) Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Company provides loan origination services through its franchise network and receives origination commission on the settlement of loans. Additionally, the lender will normally pay a trailing commission over the life of the loan. Revenue over the estimated life of loans written is recognised on the settlement of the loans as no additional services are required to receive the entitled funds. Additionally, the Company earns income from the sale of franchises and franchisee services.

Revenue from sale of services is recognised as follows:

i) Origination commissions arising from mortgage broking activities

Once the Group has referred a successful loan application to the lender, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the loan is settled with the lender. The transaction price is adjusted for any expected clawbacks using the expected value method.

The transaction price is a percentage of the settlement value of the loan.

ii) Trailing commissions arising from mortgage broking activities

Once the Group has referred a successful loan application to the lender, its performance obligations have been met. As such, the Group recognises this revenue at a point in time, being when the loan is settled with the lender.

On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration.

A significant financing component is also involved when determining this variable consideration. As such, the contract asset is adjusted by recalculating the net present value of estimated future cash flows at the original effective interest rate.

The transaction price is a percentage of the expected outstanding balance of the loan.

iii) Diversified commissions

Once the Group has referred a successful application to the lender or provider, its performance obligations have been met. As such, the Group recognises this revenue at a point in time.

The transaction price is a percentage of the settlement value of the loan or policy value of the insurance product or expected outstanding balance of the loan or policy value of the insurance product.

iv) Financial planning revenue

a) Advice fees

Revenue is recognised at a point in time the advice is delivered to the customer.

Annual ongoing service revenue is recognised over a period of time. A time elapsed method is used to measure progress towards completion. On average the entity provides services to customers evenly throughout the year and therefore recognises revenue accordingly.

The transaction price is based on the service package provided and is paid annually or monthly.

b) Life insurance commission

Once the Group has referred a successful insurance application to the provider, its performance obligations have been met. As such, the Group recognises this upfront commission revenue at a point in time, being when the policy is placed by the provider.

Group recognises trailing commission revenue at a point in time, being when the policy is placed by the provider. On initial recognition a contract asset is recognised, representing management's estimate of the variable consideration to be received from the completion of this performance obligation. The Group uses the 'expected value' method of estimating the variable consideration. A significant financing component is also involved when determining this variable consideration. As such, the contract asset is adjusted by recalculating the net present value of estimated future cash flows at the original effective interest rate.

The transaction price is a percentage of the policy value of the insurance product for upfront commissions or expected policy value for trailing commissions.

v) Franchise income

Franchise income is predominantly the recovery of costs of meeting regulatory requirements and is charged to franchisees on a monthly basis. This revenue is recognised as the performance obligation relating to these requirements are performed.

Note 1 Summary of significant accounting policies continued

vi) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

vii) Sponsorship and other income

Other income includes contributions from lenders towards conferences and workshops which are recognised as income at a point in time in the period the conference or workshop is held. Also included in this category are other non-operating revenues recognised in the period to which the income relates.

E) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Mortgage Choice Limited and its wholly-owned controlled entities have elected to consolidate under the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Tax consolidation legislation

Mortgage Choice Limited and its wholly owned Australian controlled entities are members of a consolidated group for income tax purposes.

The head entity, Mortgage Choice Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Mortgage Choice Limited also recognises current tax liabilities or assets, and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate Mortgage Choice Limited for any current tax payable assumed and are compensated by Mortgage Choice Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Mortgage Choice Limited under the tax consolidation legislation.

The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Note 1 Summary of significant accounting policies continued

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

F) Leases

Leases of property, plant and equipment, where the Group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

G) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

H) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

I) Trade receivables

Trade receivables are recognised at amortised cost using the effective interest method, less expected credit losses (ECL). Trade receivables are generally due in 30 days.

The Group recognises lifetime ECL for trade receivables. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

J) Contract assets

Contract assets recognised are primarily related to trailing commission arising from mortgage broking activities.

Any amount previously recognised as a contract asset is reclassified to trade receivables at the point in which the right becomes unconditional.

K) Financial assets

On initial recognition, a financial asset is classified and measured at:

- Amortised cost;
  - Fair value through other comprehensive income (FVTOCI) – debt instrument
  - Fair value through other comprehensive income (FVTOCI) – equity instrument
  - Fair value through profit or loss (FVTPL)

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Note 1 Summary of significant accounting policies continued

The Group recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

L) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Office equipment	5-10 years
Computer equipment	3-4 years
Furniture and fittings	5-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1G).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

M) Intangible assets

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to seven years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

N) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

O) Trailing commissions payable

Payables related to trailing commissions are recognised in accordance with the revenue recognition policy outlined in Note 1D.

P) Borrowing costs

Borrowing costs are recognised as expenses using the effective interest method.

Q) External borrowings

All borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method other than those which are measured at fair value through profit or loss (FVTPL).

Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts on acquisition, over the period to maturity.

R) Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Note 1 Summary of significant accounting policies continued

S) Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non monetary benefits and annual leave expected to be settled within twelve months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid. The liability for annual leave is included in provisions. The liability for all other short-term employee benefits is included in trade and other payables.

Other long-term employee benefit obligations

The liability for long service leave and any annual leave, which is not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting period on high quality corporate bonds with terms and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Retirement benefit obligations

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

Share based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan, the Mortgage Choice Performance Share Plan and the Mortgage Choice Share Rights Plan. Information relating to these schemes is set out in Note 27.

The fair value of performance shares granted under the Mortgage Choice Performance Share Plan and share rights granted under the Mortgage Choice Share Rights Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance shares granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Mortgage Choice Performance Share Plan and the Mortgage Choice Share Rights Plan are administered by the Mortgage Choice Performance Share Plan Trust and the Mortgage Choice Employee Incentive Trust; see Note 1(B)(ii).

Short-term incentive plans

The Group recognises a liability and an expense where contractually obliged or where there is a past practice that it has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

T) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Mortgage Choice Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Mortgage Choice Limited.

U) Dividends

Provision is made for the amount of any dividend declared, that is approved by the Directors on or before the end of the financial year but not yet paid at the reporting date.

V) Earnings per share

i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 1 Summary of significant accounting policies continued

W) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

X) New accounting standards and interpretations

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 *'Leases'*	1 January 2019	30 June 2020
AASB 2018-1 *Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle*	1 January 2019	30 June 2020

From the above table, the potential effect of the revised Standards/Interpretations on the Group's financial statements is discussed for the most impactful Standards below:

AASB 16 Leases

AASB 16 will replace *AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The Standard will provide a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

Key requirements of AASB 16:

AASB 16 distinguishes leases and service contacts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases or leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by AASB 16.

AASB 16 applies to annual period beginning on or after 1 January 2019. The Group anticipates that the application of AASB 16 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

Based on the Group's assessment of the leases the Group has as at 30 June 2018 on the basis of the facts and circumstances that exist as at that date, the changes to AASB 16 Leases will result in the inclusion of a lease liability and a right of use asset on the balance sheet. There will also be changes to the profile of the expense. Rather than being a straight line rental expense, there will be more expensed in early years and less in later years. In addition, the nature of expenses related to those leases will now change because the new standard replaces the straightline operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. As a result, there will be an increase in cash inflow from operations arising from the depreciation charge, and an increase in cash outflow from financing activities from the interest expense.

This will also increase metrics such as EBITDA as rather than an operating rental expense there will be a movement of expenses below the EBITDA line.

The Group has lease commitments of $4.753m (refer note 21). The amount disclosed does not include any lease extension options and is not discounted as the Group is still in the process of determining its incremental borrowing rate, and as such is not able to determine the impact on the statement of financial position and statement of comprehensive income at this stage.

As a lessee, the Group can either apply the standard using the retrospective approach or modified retrospective approach with optional practical expedients. The lessee applies the election consistently to all of its leases. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group plans to apply the accounting standard initially on 1 July 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. The Group has not yet decided whether it will use the optional exemptions. AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

AASB 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. AASB 16 eliminates the distinction between operating leases (off balance sheet) and finance leases (on balance sheet) for lessee accounting and replaces it with a lease model where a right-of-use asset and a corresponding lease liability will be recognised for all leases (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

Note 1 Summary of significant accounting policies continued

As at 30 June 2018, the Group currently has various non-cancellable operating lease commitments in place. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of AASB 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing the extent of the potential impact. As such, it is not currently practicable to provide an estimate of the financial effect until the directors complete the review.

Y) Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Mortgage Choice Limited. Dividends received from subsidiaries are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Note 2 Financial risk management

The Group has limited exposure to financial risks with the exception of credit risk, liquidity risk and prepayment risk. The Group does not use derivative financial instruments such as foreign exchange contracts, interest rate swaps or other derivative instruments to hedge risk exposures. It does not operate internationally, does not have any significant interest rate exposure and is not exposed to either securities price risk or commodity price risk.

Risk management is carried out by the Group's finance department under policies approved by the Board of Directors.

The Group holds the following financial instruments:

	2019 $'000	2018 $'000
Financial Assets		
Current		
Cash and cash equivalents	**1,927**	3,353
Trade and other receivables [a,b]	**13,146**	103,460
Contract assets	**98,519**	—
Non—current		
Receivables [b]	**4,220**	275,685
Contract assets	**277,949**	—
	395,761	382,498

a) Excludes prepayments.
b) FY2018 includes receivables treated as Contract assets under AASB 15 in FY2019.

	2019 $'000	2018 $'000
Financial Liabilities		
Current		
Trade and other payables	**82,043**	77,211
External borrowings	**2,500**	—
Non—current		
Trade and other payables	**201,396**	196,711
	285,939	273,922

The Group's policies in relation to financial risks to which it has exposure are detailed below.

I) Market risk

Interest rate risk

The Group's main interest rate risk arises from cash, cash equivalents and external borrowings. At 30 June 2019 the weighted average interest rate on its cash balances was 1.25% (2018 1.5%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by $57,000 (2018 $83,000). A decrease of 100 basis points would reduce the Group's after tax result by $57,000 (2018 $83,000). At 30 June 2019 the interest rate on the Group's external borrowings was 1.27%. If interest rates were to increase by 100 basis points, the Group's after tax result would reduce by $17,000. A decrease of 100 basis points would increase the Group's after tax result by $17,000.

II) Credit risk

Credit risk is assessed on a Group basis. It arises from cash and cash equivalents placed with banks as well as credit exposure to financial institutions on the Group's lender panel from which future trailing commissions are due. The majority of these financial institutions are Authorised Deposit—taking Institutions (ADIs) and therefore regulated by the Australian Prudential Regulation Authority (APRA) and are independently rated. This forms the basis of the Group's assessment of credit risk. If the lender has not been independently rated, credit risk is assessed taking into account its financial position, past experience and other factors. The table below indicates the Group's exposure to each ratings category.

The Group bears the risk of non—payment of future trailing commissions by lenders should they become insolvent but correspondingly, there is no legal requirement to pay franchisees trailing commissions that have not been received. The Group judges there to be an increase in credit risk if the receivable becomes 30 days past due. The Group's expected credit losses has been determined to be not material due to the Group's history of no historical losses and the risk profile of the Group's lender panel. Refer to the table below.

Note 2 Financial risk management continued

2019	Standard & Poor's Credit Rating	Cash $'000	Trade and Franchisee Receivables $'000	Contract Assets $'000
ADI's	AA–	1,927	7,789	237,058
	A+		1,504	25,561
	A		1,330	41,185
	A–		158	4,734
	BBB+		120	3,082
	BBB		1,162	33,875
	BBB–		—	—
	Not rated		205	5,609
		1,927	12,269	351,104
Non ADI's	AA–		54	—
	A+		213	13,431
	A		—	—
	A–		—	—
	BBB+		7	—
	BBB		—	—
	BBB–		125	2,910
	Not rated		7,917	9,023
		—	8,317	25,364
Provision for Lender clawbacks			(3,220)	
Total Receivable		1,927	17,366	376,468

2018	Standard & Poor's Credit Rating	Cash $'000	Trade and Franchisee Receivables $'000	Contract Assets $'000
ADI's	AA–	3,353	8,654	243,407
	A+		1,172	21,458
	A		1,678	46,171
	A–		0	—
	BBB+		236	2,839
	BBB		1,723	31,432
	BBB–		—	—
	Not rated		156	5,347
		3,353	13,619	350,654
Non ADI's	AA–		60	—
	A+		307	—
	A		—	—
	A–		—	—
	BBB+		1	—
	BBB		—	—
	BBB–		128	2,666
	Not rated		8,218	7,593
		—	8,714	10,259
Provision for Lender clawbacks			(4,198)	
Total Receivable		**3,353**	**18,135**	**360,913**

Note 2 Financial risk management continued

III) Liquidity risk and fair value estimation

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The tables below analyse the Group's financial assets into relevant maturity groupings based on the expected future cashflows. No financial assets are past due or impaired.

At 30 June 2019	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non—derivatives							
Interest bearing							
Cash and cash equivalents	**1,925**	**—**	**—**	**—**	**—**	**1,925**	**1,925**
Franchisee receivables	**1,263**	**1,113**	**1,909**	**2,356**	**131**	**6,771**	**6,088**
Non—interest bearing							
Cash and cash equivalents	**2**	**—**	**—**	**—**	**—**	**2**	**2**
Trade receivable	**11,015**	**—**	**—**	**—**	**—**	**11,015**	**11,015**
Franchisee and other receivables	**263**	**0**	**0**	**0**	**0**	**263**	**263**
Contract assets	**50,291**	**45,816**	**78,886**	**151,613**	**116,137**	**442,742**	**376,468**
	64,759	**46,929**	**80,795**	**153,969**	**116,268**	**462,719**	**395,761**

The fair value of the contract assets is $385,436,000. The fair value of all other assets is the same as their carrying amount. The fair value of the contract assets would be classified as Level 3 in the fair value hierarchy. It has been determined in accordance with generally accepted pricing models using a discounted cash flow valuation technique, which requires the use of management assumptions as disclosed in Note 3 with the exception of the discount rate for which management has applied a discount rate of 2.91% for residential trailing commissions and 4.8% for insurance products. There has been no change to the valuation technique during the year.

At 30 June 2018	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non—derivatives							
Interest bearing							
Cash and cash equivalents	3,351	—	—	—	—	3,351	3,351
Franchisee receivables	1,190	1,119	1,970	3,238	419	7,936	6,238
Non—interest bearing							
Cash and cash equivalents	2	—	—	—	—	2	2
Trade receivable	11,751	—	—	—	—	11,751	11,751
Franchisee and other receivables	308	25	10	11	0	354	354
Future trailing commissions receivable	48,078	43,938	76,009	148,241	114,368	430,634	360,913
	64,680	**45,082**	**77,989**	**151,490**	**114,787**	**454,028**	**382,609**

The fair value of the future trailing commissions receivable is $370,131,000. The fair value of all other assets is the same as their carrying amount.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the expected future cashflows.

Note 2 Financial risk management continued

Contractual maturities of financial liabilities at 30 June 2019	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non—derivatives							
Interest bearing							
External borrowing	**1,500**	**1,000**	**—**	**—**	**—**	**2,500**	**2,500**
Trade payables	**279**	**—**	**—**	**—**	**—**	**279**	**279**
Non—interest bearing							
Trade payables	**10,796**	**—**	**—**	**—**	**—**	**10,796**	**10,796**
Licence fees and other payables	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Future trailing commissions payable	**36,168**	**33,002**	**56,923**	**109,470**	**83,928**	**319,491**	**272,363**
	48,743	**34,002**	**56,923**	**109,470**	**83,928**	**333,066**	**285,938**

The Group's most significant financial liability is related to the net present value of future trailing commissions payable. Due to the structure of the Group's commission arrangements, the total future trailing commissions payable is limited only to the total trailing commissions that are actually received and as a result naturally limits the liquidity risk of the Group. The fair value of the future trailing commissions payable is $279,350,000. The fair value of all other liabilities is the same as their carrying amount.

External borrowings

During the year, the Group obtained a new loan facility to the amount of $4,500,000. As at 30 June 2019, the outstanding amount is $2,500,000. The loan bears interest at variable market rates and is repayable in April 2020. In accordance with the terms of the Group's corporate debt facilities, the Group is required to comply with certain covenants. During the period and as at 30 June 2019, the Group was compliant with these covenants.

The loan facility is secured against the assets of the Group.

Contractual maturities of financial liabilities at 30 June 2018	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non—derivatives							
Non—interest bearing							
Trade payables	13,401	—	—	—	—	13,401	13,401
Licence fees and other payables	—	—	—	—	—	—	—
Future trailing commissions payable	33,625	31,609	54,747	107,011	83,202	310,194	260,521
	47,026	**31,609**	**54,747**	**107,011**	**83,202**	**323,595**	**273,922**

The fair value of the future trailing commissions payable is $266,301,000. The fair value of all other liabilities is the same as their carrying amount.

IV) Prepayment risk

Prepayment risk has been assessed through the sensitivity analysis of run-off rates, refer to Note 3.

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Trailing commissions

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding subject to the loan continuing to perform. The Group also makes trailing commission payments to franchisees based on their individual loan book balance outstanding.

The contract assets and the corresponding payable to franchisees are determined by using the discounted cash flow valuation technique, which requires the use of assumptions. The key assumptions to determine the amortised cost at balance sheet date are the future run-off rate of the underlying loan portfolio, the discount rate and the percentage paid to franchisees. The future run-off rate used is actually a series of rates applied to the underlying loans based primarily on their age at the date of valuation. The weighted average life shown below is the result of the series of future run-off rates applied to the specific loan data at the balance sheet date.

The determination of the assumptions to be used in the valuation is made by Management based primarily on a variety of contributing factors including: an annual assessment of the underlying loan portfolio including historical run-off rate analysis and consideration of current and future economic factors. These factors are complex and the determination of assumptions requires a high degree of judgement.

The significant assumptions used in the valuation are listed below:

	2019	2018
Weighted average loan life	**4.0 years**	4.0 years
Average discount rate	**4.9%**	5.4%
Percentage paid to franchisees	**72%**	72%

If the series of run-off rates used in the valuation of trailing commissions receivable and payable were to differ by +/- 10% from Management's estimates, the impact on the balance sheet would be:

- a decrease in net assets of $5.0 million (made up of decreases in current assets of $6.6 million, non-current assets of $19.0 million, current liabilities of $4.7 million, non-current liabilities of $13.8 million and deferred tax liabilities of $2.1 million) if run-off rates increase by 10%; or
- an increase in net assets of $5.6 million (made up of a decreases in current assets of $4.3 million and current liabilities of $3.1 million, increases in non-current assets of $33.2 million, non-current liabilities of $23.9 million and deferred tax liabilities of $2.5 million) if run-off rates decrease by 10%.

Changes to the discount rate are likely to occur as a result of changes to the interest rate. However, management does not consider this to have a material impact on the value of trailing commissions receivable and payable as they are calculated using amortised cost rather than fair value. During FY 2018 the Group revised the broker remuneration framework resulting in an increase to the percentage paid to franchisees. Management does not consider further material changes to the percentage paid to franchisees to be likely.

The assumptions used in the valuation of future trailing commissions were changed to reflect an extension of the current economic environment for the short to medium term. These changes to the trailing commission model resulted in a $2.67 million positive adjustment after tax to the Group's profit and loss for FY 2019 (2018 – $8.67 million positive adjustment). Changes to the model assumptions to reflect the new broker remuneration framework resulted in a $28.47 million negative adjustment after tax to the Group's profit and loss for FY 2018, refer Note 4 (c) (ii). The impact is detailed in the table below:

	2019 $'000	2018 $'000
Increase/(decrease) in receivables	**13,644**	28,045
Increase/(decrease) in payables	**9,835**	15,659
Net adjustment before tax	**3,809**	12,386
Tax effect	**1,143**	3,716
Adjustment after tax	**2,666**	8,670
Change in model assumptions to reflect the new broker remuneration framework	**—**	(28,468)
Total after tax adjustment	**2,666**	(19,798)

Note 4 Segment information

a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic and operating decisions including the allocation of resources.

The Chief Executive Officer considers the business from both a product and cash versus IFRS presentation of the results. Therefore management has identified two reportable product segments, Mortgage Choice franchised mortgage broking (MOC) and Mortgage Choice Financial Planning (MCFP). MCFP includes revenue from wealth products, including investment advice as well as all risk insurance products written across the Group. Operating expenses presented in MCFP represent the expenses solely attributable to that business segment. Help Me Choose health fund and mortgage comparison website (HMC) ceased operations in 2015 and continued to receive trailing commissions until August 2018. The Group operates only in Australia.

b) Information provided to the Chief Executive Officer

Information provided to the Chief Executive Officer for the year ended 30 June 2019 is as follows:

Product Segments

2019	**Total $'000**	**MOC $'000**	**MCFP $'000**	**HMC $'000**
Revenue	**177,355**	**166,818**	**10,537**	**—**
Gross Profit (IFRS)	**49,492**	**47,798**	**1,774**	**—**
Gross profit (cash)	**49,352**	**47,464**	**1,888**	**—**
Depreciation and amortisation	**2,143**	**2,143**	**—**	**—**
OPEX (excl SBP [1])	**29,157**	**27,287**	**1,870**	**—**
Income tax expense	**6,209**	**6,247**	**(38)**	**—**
NPAT (IFRS)	**13,724**	**13,812**	**(88)**	**—**
NPAT (cash)	**14,028**	**14,007**	**21**	**—**

1 Share based remuneration

2018	Total $'000	MOC $'000	MCFP $'000	HMC $'000
Revenue	217,808	206,357	11,322	129
Gross Profit (IFRS)	40,677	38,289	2,259	129
Gross profit (cash)	68,422	65,807	2,259	356
Depreciation and amortisation	1,587	1,587	—	—
OPEX (excl SBP [1])	35,110	33,389	1,721	—
Income tax expense	1,609	1,415	155	39
NPAT (IFRS)	4,238	3,786	362	90
NPAT (cash)	23,382	22,750	383	249

1 Share based remuneration

Note 4 Segment information continued

Cash versus IFRS

	IFRS			Cash[1]		
	2019 $'000	2018 $'000	% change	**2019 $'000**	2018 $'000	% change
Origination commission	**57,858**	70,015	(17%)	**57,858**	70,015	(17%)
Trailing commission	**100,305**	124,745	(20%)	**99,827**	98,459	1%
	158,163	194,760	(19%)	**157,685**	168,474	(6%)
Origination commission paid	**44,380**	48,839	(9%)	**44,380**	48,839	(9%)
Trailing commission paid[2]	**71,321**	73,048	(2%)	**71,129**	59,911	19%
	115,701	121,887	(5%)	**115,509**	108,750	6%
Net core commission	**42,462**	72,873	**(42%)**	**42,176**	59,724	**(29%)**
Diversified products net revenue	**1,239**	1,752	(29%)	**1,266**	1,752	(28%)
Financial Planning net revenue	**1,756**	2,227	(21%)	**1,875**	2,227	(16%)
Other income	**4,035**	4,493	(10%)	**4,035**	4,720	(15%)
Gross profit	**49,492**	81,345	**(39%)**	**49,352**	68,423	**(28%)**
Operating expenses	**29,157**	35,110	(17%)	**29,157**	35,110	(17%)
Share based remuneration	**402**	(279)	(244%)	**—**	—	
Net profit before tax	**19,933**	46,514	(57%)	**20,195**	33,313	(39%)
Balance sheet adjustment – NPV Future trail payable[3]		(40,668)				
Net profit after tax	**13,724**	4,238	**224%**	**14,028**	23,382	**(40%)**

1 Cash is based on accruals accounting and excludes share based remuneration and the net present value of future trailing commissions receivable and payable.
2 Trailing commission income and trailing commission paid include discount unwind as itemised in the consolidated income statement
3 The NPV of future trail payable was adjusted at 30 June 2018 to reflect the change in the broker remuneration structure.

The following provides additional detail to assist in reconciliation of the above table to the consolidated income statement:

	IFRS			Cash		
	2019 $'000	2018 $'000	% change	**2019 $'000**	2018 $'000	% change
Diversified products commissions	**4,511**	7,265	(38%)	**4,642**	7,265	(36%)
Diversified products commissions paid	**3,272**	5,513	(41%)	**3,376**	5,513	(39%)
Diversified products net revenue	**1,239**	1,752	(29%)	**1,266**	1,752	(28%)
Financial Planning revenue	**10,646**	11,290	(6%)	**11,245**	11,290	(0%)
Financial Planning commissions paid	**8,890**	9,063	(2%)	**9,370**	9,063	3%
Financial Planning net revenue	**1,756**	2,227	(21%)	**1,875**	2,227	(16%)
Franchise Income	**1,054**	921	14%	**1,054**	921	14%
Interest	**600**	577	4%	**600**	577	4%
Help Me Choose commissions		129	(100%)		356	(100%)
Other income	**2,381**	2,866	(17%)	**2,381**	2,866	(17%)
Other income	**4,035**	4,493	(10%)	**4,035**	4,720	(15%)

Note 4 Segment information continued

Diversified life insurance products are reallocated to Financial Planning for segment reporting. The following table shows the reconciliation from the Consolidated Income Statement to this statement.

	Total	Diversified Products	Financial Planning
Consolidated Income statement			
Revenue			
Diversified products commission	4,677	4,511	166
Insurance trailing commission excluding discount unwind	2,480		2,480
Insurance trailing commission discount unwind	913		913
Financial Planning income	7,087		7,087
		4,511	10,646
Direct costs			
Diversified products commission	3,400	3,272	128
Insurance trailing commission excluding discount unwind	2,049		2,049
Insurance trailing commission discount unwind	770		770
Financial Planning commission	5,944		5,944
		3,272	8,891

c) Other information

i) Operating income

Operating income from the origination of a residential mortgage is comprised of commission paid at the time the loan is originated and a trailing commission which is paid over the life of the loan. Under IFRS, the expected value method is used to the estimate the future trailing cash flows to be received over the life of a loan and is recognised at the time a loan settles. The Chief Executive Officer considers both this and the cash NPAT when measuring the Group's performance.

ii) Net profit after tax

The cash net profit after tax (as shown above) reconciles to the IFRS profit after tax as follows:

	2019 $'000	2018 $'000
Cash Net profit after tax	**14,028**	23,382
NPV future trails on new loans originated, net of payout	**11,012**	20,996
Less net cash from trail previously recognised under IFRS	**(16,211)**	(20,445)
NPV future trails on new insurance policies, net of payout	**238**	—
Less net cash trail from insurance policies previously recognised under IFRS	**(338)**	—
Plus adjustments to loan book assumptions	**2,666**	8,680
Gain/(loss) on prepayment/(establishment) of trail liability	**2,040**	(183)
Plus reversal of amortisation of trail liability [1]	**691**	156
NPV future trails adjustment Help Me Choose policies	**—**	20
Less net cash from trail previously recognised under IFRS	**—**	(179)
Less share based payments expense	**(402)**	279
IFRS before adjustment to NPV Trail Payable		32,706
Less Balance Sheet adjustment to NPV Trail payable		(28,468)
IFRS	**13,724**	4,238

1 Under cash profit, the prepayment of trail liability is spread over the estimated life of the trail book portfolio.

Note 4 Segment information continued

iii) Gross profit and net core commissions

The cash gross profit and net core commissions reconcile to their IFRS equivalents as follows:

	Gross Profit		Net Core Commissons	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Cash	**49,352**	68,423	**42,176**	59,724
NPV future trails on new loans originated, net of payout	**15,731**	29,995	**15,731**	29,995
Less net cash from trail previously recognised under IFRS	**(23,158)**	(29,206)	**(23,158)**	(29,206)
NPV future trails on new insurance policies, net of payout	**338**	—	**—**	—
Less net cash trail from insurance policies previously recognised under IFRS	**(483)**	—	**—**	—
Plus adjustments to loan book assumptions	**3,809**	12,400	**3,809**	12,400
Gain/(loss) on prepayment/(establishment) of trail liability	**2,915**	(261)	**2,915**	(261)
Plus reversal of amortisation of trail liability [1]	**988**	221	**988**	221
NPV future trails on Help Me Choose policies written	**—**	29	**—**	—
Less net cash from trail previously recognised under IFRS	**—**	(256)	**—**	—
IFRS before adjustment to NPV Trail Payable	**49,492**	81,345	**42,461**	72,873
Less Balance Sheet adjustment to NPV Trail payable	**—**	(40,668)	**—**	(40,668)
IFRS	**49,492**	40,677	**42,461**	32,205

1 Under cash profit, the prepayment of trail liability is spread over the estimated life of the trail book portfolio.

iv) Timing of revenue recognition

	2019 $'000	2018 $'000
Performance obligations met at a point in time		
MOC		
Origination commission	**57,858**	70,015
Trailing commission	**100,305**	124,745
Diversified products commissions	**4,511**	6,976
Franchise Income	**1,054**	921
Other income	**2,368**	2,834
	166,096	205,491
MCFP		
Financial planning revenue	**7,571**	8,367
Other income	**16**	14
	7,587	8,381
Total Point in time revenue	**173,684**	213,872
Performance obligations met over time		
MCFP		
Financial planning revenue	**3,075**	2,923
Other income	**(4)**	18
Total Point over time revenue	**3,071**	2,941

Note 5 Revenue

	2019 $'000	2018 $'000
Revenue from continuing operations		
Sales revenue		
Services	**155,796**	196,450
Other revenue		
Interest earned on deposits and loans	**600**	577
Interest in relation to discount unwind	**18,578**	17,915
Sponsorship and other income – point in time	**2,385**	2,848
Sponsorship and other income – over time	**(4)**	18
	177,355	217,808

Note 6 Income tax

a) Income tax expense

	2019 $'000	2018 $'000
Current tax	**4,958**	8,601
Deferred tax	**1,255**	(6,986)
Under (over) provided in prior years	**(4)**	(6)
	6,209	1,609
Income tax expense is attributable to:		
Profit from continuing operations	**6,209**	1,609
	6,209	1,609
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (Note 9)	**(2,880)**	(15,678)
Increase/(decrease) in deferred tax liabilities (Note 14)	**4,135**	8,692
	1,255	(6,986)

b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 $'000	2018 $'000
Profit from continuing operations before income tax expense	**19,933**	5,847
Income tax calculated @ 30% (2018 – 30%)	**5,980**	1,754
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income	**233**	166
Research and Development Tax Incentive	**-**	(305)
	6,213	1,615
Under/(over) provision from prior years	**(4)**	(6)
Income tax expense	**6,209**	1,609

No part of the deferred tax asset shown above and in Note 9 is attributable to tax losses.

Note 7 Trade and other receivables

	2019			2018		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Trade receivables[1]	**11,016**	**—**	**11,016**	11,751	—	11,751
Contract assets	**98,519**	**277,949**	**376,468**	—	—	—
Net present value of future trailing commissions receivable	**—**	**—**	**—**	89,640	271,273	360,913
Franchisee receivables	**1,897**	**4,220**	**6,117**	1,972	4,412	6,384
Other receivables	**233**	**—**	**233**	97	—	97
Prepayments	**604**	**—**	**604**	578	—	578
	112,269	**282,169**	**394,438**	104,038	275,685	379,723

1 Subject to a limited charge in favour of The Loan Book Security Trust (refer to Note 11)

a) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

b) Impaired trade receivables

As at 30 June 2019 current trade receivables were not impaired (2018 – nil).

c) Risk exposure

Information about the Group's exposure to credit risk and interest rate risk is provided in Note 2.

d) Fair values

The carrying amounts of trade and other receivables at year end is a reasonable approximation of their fair values with the exception of the net present value of contract assets (future trailing commissions receivable) which are accounted for at amortised cost. The fair values of the net present value of contract assets are presented in Note 2.

Note 8 Non-Current Assets – Property, plant and equipment

	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Year ended 30 June 2018			
Opening net book amount	419	239	658
Additions	164	204	368
Disposals	(41)	—	(41)
Depreciation charge	(196)	(103)	(299)
Closing net book amount	346	340	686
At 30 June 2018			
Cost	1,977	1,444	3,421
Accumulated depreciation	(1,631)	(1,104)	(2,735)
Net book amount	346	340	686
Year ended 30 June 2019			
Opening net book amount	346	340	686
Additions	151	199	350
Disposals	—	(41)	(41)
Depreciation charge	(186)	(92)	(278)
Closing net book amount	311	406	717
At 30 June 2019			
Cost	2,033	1,517	3,550
Accumulated depreciation	(1,722)	(1,111)	(2,833)
Net book amount	311	406	717

Note 9 Non-current assets – Deferred tax assets

	2019 $'000	2018 $'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	**81,709**	78,156
Employee benefits	**485**	750
Depreciation and amortisation	**(11)**	74
Accrued expenses	**320**	643
Total deferred tax assets	**82,503**	79,623
Set off of deferred tax assets pursuant to set off provisions (Note 14)	**(82,503)**	(79,623)
Net deferred tax assets	**—**	—
Deferred tax assets to be recovered within 12 months	**24,881**	20,454
Deferred tax assets to be recovered after more than 12 months	**57,622**	59,169
	82,503	79,623

Note 9 Non-current assets – Deferred tax assets continued

Movements

	NPV of future trailing commissions payable $'000	Employee benefits $'000	Depreciation and amortisation $'000	Accrued expenses $'000	Other $'000	Total $'000
At 30 June 2017	**62,276**	**843**	**142**	**684**	**—**	**63,945**
Charged/(credited) to the income statement	15,880	(93)	(68)	(41)	—	15,678
At 30 June 2018	**78,156**	**750**	**74**	**643**	**—**	**79,623**
Charged/(credited) to the income statement	3,553	(265)	(85)	(323)	—	2,880
At 30 June 2019	**81,709**	**485**	**(11)**	**320**	**—**	**82,503**

Note 10 Non-current assets – intangible assets

	Computer Software $'000
Year ended 30 June 2018	
Opening net book amount	6,081
Additions	3,769
Amortisation charge	(1,288)
Disposals	—
Closing net book amount	8,562
At 30 June 2018	
Cost	19,859
Accumulated amortisation	(11,297)
Net book amount	8,562
Year ended 30 June 2019	
Opening net book amount	8,562
Additions	3,406
Amortisation charge	(1,836)
Disposals	—
Closing net book amount	10,132
At 30 June 2019	
Cost	23,265
Accumulated amortisation	(13,133)
Net book amount	10,132

Note 11 Current liabilities – Trade and other payables

	2019 $'000	2018 $'000
Trade payables [a]	**9,469**	10,052
Net present value of future trailing commissions payable	**70,967**	63,810
Deferred revenue [b]	**347**	156
Other payables	**1,260**	3,193
	82,043	77,211

a) Loan Book Security Trust

The Loan Book Security Scheme provides security for the trailing commissions payable to certain eligible franchisees based on performance criteria. Mortgage Choice Limited has granted two charges in favour of a trustee on behalf of the eligible franchisees. The independent trustee is Sargon CT Pty Limited.

The first charge is over a specified percentage of the Company's trailing commission income. The purpose of this charge is to be the first source of funds available to eligible franchisees for the payment of trailing commissions in the event that administration or liquidation occurs. The charge will crystallise and can be enforced by eligible franchisees only in the event of liquidation or administration of Mortgage Choice Limited.

As at 30 June 2019, the amount that would be subject to charge resulting from applying the specified percentage to the trailing commission immediately due to be received by Mortgage Choice Limited is $5,597,900 (2018 – $4,691,001). This is included as part of the balance of trade payables at 30 June 2019 and would be subject to charge until disbursed to the eligible franchisees. The amount subject to the charge would vary dependent on trailing commission due to be received by Mortgage Choice Limited from month to month.

The second charge is a floating charge over all of the assets of Mortgage Choice Limited. It is limited in the powers it allows the security trustee to exercise prior to liquidation. Its primary purpose is to ensure that the loan book security structure need not be subject to the moratorium arising if an administrator were to be appointed to Mortgage Choice Limited. Only after liquidation does this charge confer comprehensive mortgagee powers on the security trustee.

b) Deferred revenue

Mortgage Choice Financial Planning charges ongoing service fees annually. This reflects the value of performance obligations not yet performed as at 30 June 2019.

Fair values

The carrying amounts of trade and other payables at year end is a reasonable approximation of their fair values with the exception of the net present value of future trailing commissions payable which are accounted for at amortised cost. The fair values of the net present value of future trailing commission payable are presented in Note 2.

Note 12 Provisions

	2019			2018		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Make good provision [a]	**58**	**439**	**497**	68	420	488
Employee entitlements – annual leave	**784**	**—**	**784**	731	—	731
Employee entitlements – long service leave	**497**	**335**	**832**	459	271	730
	1,339	**774**	**2,113**	1,258	691	1,949

a) Make good provision

Mortgage Choice is required to restore the leased premises of its offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets. Make good costs that are not expected to be settled within twelve months have been included in non-current liabilities.

Note 13 Non-current liabilities – Trade and other payables

	2019 $'000	2018 $'000
Net present value of future trailing commissions payable	**201,396**	196,711
	201,396	196,711

Note 14 Non-current liabilities – Deferred tax liabilities

	2019 $'000	2018 $'000
The balance comprises temporary differences attributable to:		
Expected value of contract assets	**112,940**	108,274
Intangibles	**1,660**	2,131
Prepayments and other receivables	**71**	131
	114,671	110,536
Set off of deferred tax assets pursuant to set off provisions (Note 9)	**(82,503)**	(79,623)
Net deferred tax liabilities	**32,168**	30,913
Deferred tax liabilities to be settled within 12 months	**30,035**	27,437
Deferred tax liabilities to be settled after more than 12 months	**84,636**	83,099
	114,671	110,536

Movements – Consolidated

	Expected value of contract assets $'000	Intangibles $'000	Prepayments and other receivables $'000	Total $'000
At 30 June 2017	**100,456**	**1,346**	**42**	**101,844**
Charged to the income statement	7,818	785	89	8,692
At 30 June 2018	**108,274**	**2,131**	**131**	**110,536**
Charged to the income statement	4,666	(471)	(60)	4,135
At 30 June 2019	**112,940**	**1,660**	**71**	**114,671**

Note 15 Contributed equity

	2019 shares '000	2018 shares '000	2019 $'000	2018 $'000
Share capital				
Ordinary shares – fully paid	**124,149**	123,964	**8,097**	7,764

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Total contributed equity as at 30 June 2019:

Details	Number of shares
Total ordinary shares on issue	124,997,440
Treasury shares a)	(848,334)
Total ordinary shares held as contributed equity	124,149,106

a) Treasury shares

Treasury shares are shares in Mortgage Choice Limited that are held by the Mortgage Choice Performance Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) (see Note 27 for further information).

Date	Details	Number of shares
30 June 2017	Balance	1,202,873
14 September 2017	Shares issued under the Share Rights Plan to employees	(64,550)
14 September 2017	Shares issued under the Performance Share Plan to employees	(76,527)
15 September 2017	Shares issued under the Share Rights Plan to employees	(66,677)
17 September 2017	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	38,706
30 June 2018	Balance	1,033,825
14 September 2018	Shares issued under the Share Rights Plan to employees	(14,901)
14 September 2018	Shares issued under the Performance Share Plan to employees	(122,522)
5 April 2019	Shares issued under the Share Rights Plan to employees	(48,068)
30 June 2019	**Balance**	**848,334**

Movements in ordinary share capital:

Date	Details	Number of shares	$'000
30 June 2017	Balance	123,755,861	7,277
14 September 2017	Shares issued under the Share Rights Plan to employees	64,550	132
14 September 2017	Shares issued under the Performance Share Plan to employees	76,527	208
15 September 2017	Shares issued under the Share Rights Plan to employees	66,677	147
17 September 2017	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	38,706	—
17 September 2017	Held as treasury shares	(38,706)	—
30 June 2018	Balance	123,963,615	7,764
14 September 2018	Shares issued under the Share Rights Plan to employees	14,901	30
14 September 2018	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	122,522	246
5 April 2019	Shares issued under the Share Rights Plan to employees	48,068	57
30 June 2019	**Balance**	**124,149,106**	**8,097**

Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 27.

Note 16 Reserves and retained profits

a) Reserves

	2019 $'000	2018 $'000
Share-based payments reserve	**1,379**	1,309
Movements:		
Share-based payments reserve		
Balance 1 July	**1,309**	2,075
Performance shares expensed/(reversed)	**402**	(279)
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	**(332)**	(487)
Balance 30 June	**1,379**	1,309

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options and performance shares granted but not vested.

b) Retained profits

	2019 $'000	2018 $'000
Balance 1 July	**76,579**	94,836
Adjustment for adoption of AASB15	**1,705**	—
Net profit for the year	**13,724**	4,238
Dividends	**(15,000)**	(22,495)
Balance 30 June	**77,008**	76,579

Note 17 Dividends

a) Ordinary shares

	2019 $'000	2018 $'000
Final dividend declared out of profits of the Company for the year ended 30 June 2017 of 9.0 cents per fully paid share paid on 21 September 2017:		
– Fully franked based on tax paid @ 30%		
– 9.0 cents per share	**—**	11,246
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2017 of 9.0 cents per fully paid share paid 22 March 2018:		
– Fully franked based on tax paid @ 30%		
– 9.0 cents per share	**—**	11,249
Final dividend declared out of profits of the Company for the year ended 30 June 2018 of 9.0 cents per fully paid share paid on 10 October 2018:		
– Fully franked based on tax paid @ 30%		
– 9.0 cents per share	**11,250**	—
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2018 of 3.0 cents per fully paid share paid 15 April 2019:		
– Fully franked based on tax paid @ 30%		
– 3.0 cents per share	**3,750**	—
	15,000	22,495

Note 17 Dividends continued

b) Dividends not recognised at year end

	2019 $'000	2018 $'000
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.0 cents per fully paid ordinary share, (2018 – 9.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 October 2019 out of retained profits at 30 June 2019, but not recognised as a liability at year end, is	**3,750**	11,250

c) Franked dividend

The franked portions of the final dividends recommended after 30 June 2019 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2019.

	2019 $'000	2018 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2018 – 30%)	**1,416**	2,078

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

a) franking credits that will arise from the payment of the amount of the provision for income tax;

b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $1,607,000 (2018: $4,821,000).

Note 18 Key management personnel disclosures

Key management personnel compensation

	2019 $	2018 $
Short term employee benefits	**2,230,742**	2,628,373
Post employment benefits	**157,587**	158,666
Long-term benefits	**30,174**	73,693
Termination benefits	**—**	568,528
Share based payments	**295,539**	(353,398)
Balance 30 June	**2,714,042**	3,075,862

Detailed remuneration disclosures are provided in the Directors' report on pages 18 – 35 of the remuneration report.

Note 19 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms:

2019	$
a) Audit services	
– Deloitte Touche Tohmatsu Australian firm:	
– Audit and review of financial reports	**224,000**
Total remuneration for audit services	**224,000**
b) Non-audit services	
Non audit-related services	
Deloitte Touche Tohmatsu Australian firm:	
– Actuarial services	**30,000**
– Taxation services	**48,850**
– Financial modelling services	**19,645**
Total remuneration for non-audit services	**98,495**

2018	$
a) Audit services	
– Deloitte Touche Tohmatsu Australian firm:	
– Audit and review of financial reports	213,230
Total remuneration for audit services	213,230
b) Non-audit services	
Non audit-related services	
Deloitte Touche Tohmatsu Australian firm:	
– Actuarial services	75,000
– Taxation services	18,344
– Financial modelling services	137,400
Total remuneration for non-audit services	230,744

Note 20 Contingencies

Contingent liabilities

The Group had contingent liabilities at 30 June 2019 in respect of:

a) Guarantees

Guarantees given in respect of premises leases $842,423 (2018: $853,111)

b) Contingent claims

From time to time disputes occur between the Company and its franchisees in the normal course of operation, a number of which may be unresolved at any point in time. At 30 June 2019 and 30 June 2018, there were no disputes or claims in progress that are expected to have a material financial impact on the Company.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 21 Commitments

Lease commitments

Non-cancellable operating leases

The Group leases various offices under non cancellable operating leases expiring within one to six years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group also leases various pieces of office equipment under non-cancellable operating leases.

	2019 $'000	2018 $'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
– Within one year	**1,078**	1,212
– Later than one year but not later than five years	**3,675**	4,841
– Later than five years	**—**	—
	4,753	6,053

Note 22 Related party transactions

I) Parent entity

The ultimate parent entity within the Group is Mortgage Choice Limited.

II) Subsidiaries

Interests in subsidiaries are set out in Note 23.

III) Key management personnel

Disclosures relating to key management personnel are set out in Note 18. Additional disclosures are set out in the Directors' report in the remuneration report.

IV) Loans to/from related parties

The Group has formed trusts to administer the Group's employee share scheme. These are funded by the parent entity. These trusts are consolidated, as the substance of the relationship is that the trust is controlled by the Group.

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Note 23 Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in Note 1b:

			Equity holding *	
Name of entity	Country of Incorporation	Class of Shares	2019 %	2018 %
MC Loan Book Security Pty Limited	Australia	Ordinary	**100**	100
Help Me Choose Pty Limited	Australia	Ordinary	**100**	100
Mortgage Choice Financial Planning Pty Limited	Australia	Ordinary	**100**	100

These subsidiaries, except Mortgage Choice Financial Planning Pty Limited, have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

* The proportion of ownership interest is equal to the proportion of voting power held.

Note 24 Events occurring after the balance sheet date

Dividend payment

Subsequent to year end, a final ordinary dividend of $3,750,000 (3.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2019 on 21 August 2019 to be paid on 15 October 2019.

Note 25 Reconciliation of profit after income tax to net cash inflow from operating activities

	2019 $'000	2018 $'000
Profit for the year	**13,724**	4,238
Depreciation and amortisation	**2,114**	1,587
Change in net present value of future trailing inflows	**253**	(26,060)
Change in net present value of future trailing outflows	**(1,528)**	52,934
Employee expense benefits – share-based payments	**402**	(279)
Interest received	**(600)**	(577)
Interest paid	**56**	—
Reversal of make good provision	**40**	—
Net loss (gain) on sales of non-current assets	**—**	4
Change in operating assets and liabilities:		
– (Increase)/decrease in trade and other receivables	**663**	270
– (Increase)/decrease in other operating assets	**25**	(109)
– Increase/(decrease) in trade payables	**(3,082)**	(1,234)
– Increase/(decrease) in other operating liabilities	**758**	(195)
– Increase/(decrease) in provision for income taxes payable	**621**	(1,559)
– Increase/(decrease) in deferred tax liabilities	**524**	(6,986)
– Increase/(decrease) in other provisions	**164**	193
Net cash inflow from operating activities	**14,134**	22,227

Note 26 Earnings per share

	Consolidated	
	2019 Cents	2018 Cents
a) Basic earnings per share		
From continuing operations	**11.0**	3.4
b) Diluted earnings per share		
From continuing operations	**10.9**	3.4
	2019 $'000	2018 $'000
Earnings used in calculating earnings per share		
Profit from continuing operations	**13,724**	4,238
	2019 Number	2018 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**124,997,440**	124,988,956
Adjustments for calculation of diluted earnings per share:		
– Share rights	**402,440**	213,989
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**125,399,880**	125,202,945

Information concerning the classification of securities

a) Performance Share Plan

Shares issued to employees under the Mortgage Choice Performance Share Plan are considered to be ordinary shares and have been included in the determination of basic earnings per share. Details relating to the shares are set out in the Remuneration report.

b) Share Rights Plan

Share rights granted to eligible employees under the Mortgage Choice Share Rights Plan that have vested are considered to be ordinary shares and have been included in the determination of basic earnings per share. Details relating to the share rights are set out in the Remuneration report.

Note 27 Share-based payments

a) Performance Share Plan (PSP)

The PSP permits eligible employees as identified by the Board to be granted allocated unvested shares from the outset of the applicable performance period, with the shares to be held on trust for the participants by a share plan trustee. The shares granted to those employees are subject to the achievement of performance and service requirements as specified by the Board. The PSP is designed to provide the medium-term to long-term incentive component of remuneration for executives and other designated employees.

Participation in the PSP is offered on an annual basis. Eligible employees are granted shares to a value determined by reference to the Company's reward policy and market practice with regard to share based incentive arrangements provided by peer organisations. The right to receive vested shares will lapse if the performance and service criteria are not met.

Shares will be acquired for participants following their acceptance of an offer made under the Plan. The shares will be acquired by the plan trustee and held on trust for participants until they are withdrawn from the Plan (after they have vested or are deemed to be vested) or are forfeited, in circumstances outlined below. Shares will be acquired only at times permitted under the Company's share trading policy. Shares may be acquired by on-market or off-market purchases, by subscribing for new shares to be issued by the Company, or through the reallocation of forfeited shares. The method of acquisition for each share allocation will be determined by the Board. The costs of all share acquisitions under the Plan will be funded by the Group. Participants will not be required to make any payment for the acquisition of shares under the Plan.

Note 27 Share-based payments continued

A Notice of Withdrawal may be lodged by a participant following the earlier of:

- a date ten years from grant date;
- the participant ceasing to be an employee of the Company;
- a 'capital event' (generally, a successful takeover offer or scheme of arrangement relating to the Company) occurring; or
- the date upon which the Board gives its written consent to the lodgement of a Notice of Withdrawal by the participant.

While shares remain subject to the PSP rules, participants will, in general, enjoy the rights attached to those shares (such as voting or dividend rights etc). If a participant resigns from his or her employment with the Company, or otherwise ceases employment in circumstances not involving "special circumstances", the participant will be required to forfeit any unvested shares held under the Plan on the participant's behalf, unless the Board otherwise determines. Vested shares will be eligible for withdrawal in accordance with the usual procedure.

If a participant ceases to be employed by the Company or retires from office as a result of special circumstances (including death, disability, retirement, redundancy, corporate restructure, or any other circumstances determined by the Board), the Board may in its discretion determine that all or a portion of the participant's unvested shares are to be treated as vested shares, notwithstanding the fact that the vesting conditions applicable to the shares have not been met because the applicable performance period has not expired.

If the Board determines that a participant has acted fraudulently or dishonestly, has committed an act of unlawful harassment or discrimination, is in serious breach of any duty to Mortgage Choice, or, in the Board's reasonable opinion, has brought Mortgage Choice into serious disrepute, any shares to which the participant may have become entitled at the end of the performance period, and any shares held by the participant under the PSP are forfeited by the participant.

The assessed fair value at grant date of performance shares granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below.

The fair value of market based conditions at grant date are independently determined using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method that takes into account the term of the performance shares, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield (acknowledging that dividends will be paid to participants from the date of grant) and the risk free interest rate for the term of the performance shares.

Details of performance shares in the Company provided as remuneration to eligible employees are set out below. Further information on the performance shares and the detailed vesting criteria are set out in the remuneration report. In the event that no further grants are made under this plan, the PSP will not be terminated before the end of the last vesting period of shares granted under this plan.

b) Share Rights Plan (SRP)

The SRP permits eligible employees as identified by the Board from time to time to be granted share rights ("rights') from the outset of the applicable performance period. The rights granted to those employees are subject to the achievement of performance and service requirements as specified by the Board. Eligible employees are granted rights to a value determined by reference to the Company's reward policy and market practice with regard to share based incentive arrangements provided by peer organisations. The rights lapse if the performance and service criteria are not met.

Upon vesting, the Company must acquire or issue the number of shares, or the fraction thereof, into which the rights are convertible under the terms of the specific grant. The method of acquisition for each share allocation will be determined by the Board. The costs of all share acquisitions under the SRP will be funded by the Group. Participants will not be required to make any payment for the acquisition of rights under the SRP. The Board at its discretion may choose to settle the rights as a cash payment at its sole discretion.

If a participant ceases to be employed by the Company unvested rights lapse immediately. Notwithstanding this rule if a participant ceases to be an employee for a qualifying reason (including death, disability, retirement, redundancy, corporate restructure, or any other circumstances determined by the Board), the Board may in its discretion determine the treatment of any unvested rights.

If the Board determines that a participant has acted fraudulently or dishonestly; is in breach of his or her obligations to the Group; or is knowingly involved in a material misstatement of financial statements, the Board may determine that the conditions attached to the rights may be reset; the rights that have not vested may lapse; allocated or vested shares may be forfeited; or shares that have been sold on vesting must be repaid in part or in full.

Note 27 Share-based payments continued

The Board may in its sole discretion determine whether some or all of the rights vest or lapse or whether unvested rights remain subject to applicable conditions of vesting on the event of a change of control.

The assessed fair value at grant date of the rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below.

The fair value of market based conditions at grant date are independently determined using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method that takes into account the term of the performance shares, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the rights.

Details of rights issued by the Company provided as remuneration are set out below. Further information on the rights and the detailed vesting criteria are set out in the remuneration report.

Set out below are summaries of performance shares conditionally issued under the Performance Share Plan:

Offer Date	Vesting date	Value	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number
2019								
17-September-2015	14-September-2018	$2.01	137,523	—	(137,523)	—	—	—
17-September-2015	14-September-2018	$1.19	137,523	—	—	—	(137,523)	—
25-October-2016	14-September-2019	$2.28	146,044	—	—	—	—	146,044
25-October-2016	14-September-2019	$1.30	146,044	—	—	—	—	146,044
Total			567,134	—	(137,523)	—	(137,523)	292,088
Weighted average exercise price			$1.70	$0.00	$2.01	$0.00	$1.19	$1.79
2018								
22-September-2014	14-September-2017	$2.72	76,527	—	(76,527)	—	—	—
22-September-2014	14-September-2017	$1.68	62,610	—	—	—	(62,610)	—
17-September-2015	14-September-2018	$2.01	255,254	—	—	—	(117,731)	137,523
17-September-2015	14-September-2018	$1.19	255,254	—	—	—	(117,731)	137,523
25-October-2016	14-September-2019	$2.28	254,431	—	—	—	(108,387)	146,044
25-October-2016	14-September-2019	$1.30	254,431	—	—	—	(108,387)	146,044
Total			1,158,507	—	(76,527)	—	(514,846)	567,134
Weighted average exercise price			$1.76	$0.00	$2.72	—	$1.69	$1.70

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 0.21 years (2018 – 0.72 years).

Note 27 Share-based payments continued

Set out below are summaries of shares conditionally issued under the Share Rights Plan:

Offer Date	Vesting date	Value	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number
2019								
06-October-2017	14-September-2020	$1.78	171,068	—	—	—	—	171,068
06-October-2017	14-September-2020	$1.40	114,044	—	—	—	—	114,044
03-April-2018 [1]	03-April-2019	$1.26	—	45,000	(45,000)	—	—	—
03-April-2018 [1]	03-April-2020	$1.26	—	45,000	—	—	—	45,000
03-April-2018	14-September-2019	$1.50	—	10,675	—	—	—	10,675
03-April-2018	14-September-2020	$1.50	—	10,674	—	—	—	10,674
28-November-2018	14-September-2021	$1.23	—	406,978	—	—	—	406,978
28-November-2018	14-September-2021	$0.81	—	271,318	—	—	—	271,318
Total			285,112	789,645	(45,000)	—	—	1,029,757
Weighted average exercise price			$1.63	$1.10	$1.26	—	—	$1.24

1) For accounting purposes, the grant date for these share rights was 5 November 2018.

Offer Date	Vesting date	Value	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number
2018								
07-April-2015	15-September-2017	$2.60	56,560	—	(56,560)	—	—	—
25-August-2016	14-September-2017	$2.21	59,772	—	(59,772)	—	—	—
25-August-2016	14-September-2018	$2.21	59,772	—	—	—	(59,772)	—
06-October-2017	14-September-2020	$1.78	—	305,816	—	—	(134,748)	171,068
06-October-2017	14-September-2020	$1.40	—	203,876	—	—	(89,832)	114,044
Total			176,104	509,692	(116,332)	—	(284,352)	285,112
Weighted average exercise price			$2.33	$1.63	$2.40	—	$1.75	$1.63

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 1.84 years (2018 – 2.21 years).

CEO Share rights offered 3rd April 2018

The CEO's share rights offered on 3rd April 2018 relate to a special one-off grant of 90,000 and the deferred portion of the CEO's STI for FY2018 as per her contract, details of which are set out in the Remuneration Report. The share rights were granted on 5th November 2018 and 7th September 2018 respectively. The accounting grant date for these share rights is 3 April 2018.

c) Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2019 $'000	2018 $'000
Shares issued under PSP	**402**	(279)
	402	(279)

Note 28 Parent entity financial information

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2019 $'000	2018 $'000
Balance sheet		
Current assets	**110,046**	105,831
Total assets	**391,745**	390,764
Current liabilities	**85,168**	79,459
Total liabilities	**309,885**	307,774
Shareholders' equity		
Issued capital	**8,097**	7,764
Share-based payments reserve	**1,379**	1,309
Retained profits	**72,384**	73,917
	81,860	82,990
Profit or loss for the year	**13,366**	3,842
Total comprehensive income	**13,366**	3,842

b) Guarantees entered into by the parent entity

The parent entity has not provided any guarantees on behalf of subsidiaries.

The parent entity has provided guarantees in respect of obligations under premises leases of its head office and state offices totalling $842,423 (2018 – $853,111). No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees.

c) Contingent liabilities of the parent entity

Other than the guarantees mentioned above, the parent entity did not have any contingent liabilities as at 30 June 2019 or 30 June 2018.

Directors' declaration

For the year ended 30 June 2019

In the Directors' opinion:

a) the financial statements and notes set out on pages 38 – 83 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of their performance, for the financial year ended on that date; and

b) Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Vicki Allen
Chairman

Sydney
21 August 2019

Deloitte.

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Independent Auditor's Report to the Members of Mortgage Choice Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Mortgage Choice Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were

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addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Future Trailing commissions As at 30 June 2019, the Group has recognised a contract asset trailing commissions receivable of $376 million as disclosed in Note 7 representing the expected value of future trailing commissions receivable. Trailing commissions payable of $272 million were also recognised and disclosed in Note 11 and 13 representing the net present value of future trailing commissions payable by the Group. The trailing commission receivable, which is a contract asset, is initially recognised at its transaction price using the expected value approach. A significant financing component is also involved in determining this variable consideration. As such, the contract asset is subsequently adjusted by recalculating the net present value of estimated future cash flows at the original effective interest rate. Subsequent to initial recognition, the expected value of this contract asset is re-estimated based on circumstances present at each reporting date. The trailing commission payable is recognised at fair value on initial recognition and at amortised cost subsequent to initial recognition of the trailing commissions receivable and payables. Both the expected value recognition of the transaction price and the fair value of the trail commission payable at recognition require significant management judgement with regard to: • Estimation of the discount rate to be applied to loans originated in that year, • Loan book run off rate assumptions; and • Percentage of commissions paid to franchisees.	Our audit procedures included but were not limited to: • Evaluating and testing the key controls management have in place to determine the net present value of the future trailing commission receivable and payable, • Comparing previously forecast trailing commission income and expense by management to the actual results to assess historical accuracy of management's estimates, • Assessing the extraction of loan data used in management's model for completeness, • Evaluating the accuracy of the loan data by matching a sample of loans listed on the loan data to external Lender Commission Statements, • Challenging the reasonableness of management's assumptions in the determination of the trailing commission receivable and payable based on industry comparative run off rates and market observable inputs for the discount rate, • Recalculating the expected percentage to be paid to franchisees based on the loan book data and remuneration structure communicated; • Engaging internal experts to independently develop a model, using the loan data inputs and assumptions applied by management, which was used to recalculate the valuation of trailing commission receivable and payable. This was compared to management's valuation, in order to test the integrity and mathematical accuracy of management's model. • Assessing the application of AASB 9 *Financial Assets* (AASB 9) and AASB 15 *Revenue from Contracts with Customers* (AASB 15) by management to the trailing commission asset, including impact on transition to the new standards,

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	classification as a contract asset under AASB 15, and the application of the impairment provisions of AASB 9 to the amounts recognised. We also considered the appropriateness of the Group's disclosures in Note 3 the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent audit report

to members of Mortgage Choice Limited

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 34 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Mortgage Choice Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants
Sydney, 21 August 2019

Shareholder Information

For the year ended 30 June 2019

The shareholder information set out below was applicable as at 31 July 2019.

A) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Class of equity security	Ordinary Shares
1 – 1,000	876
1,001 – 5,000	1,665
5,001 – 10,000	911
10,001 – 100,000	1,163
100,001 and over	73
	4,688

There were 285 holders of less than a marketable parcel of ordinary shares.

B) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number held	Percentage of issued shares
Finconnect (Australia) Pty Ltd	20,611,785	16.49
HSBC Custody Nominees (Australia) Limited	14,763,886	11.81
Ochoa Pty Ltd	9,620,000	7.70
J P Morgan Nominees Australia Pty Limited	5,947,604	4.76
Citicorp Nominees Pty Limited	4,030,206	3.22
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	3,506,989	2.81
National Nominees Limited	2,151,531	1.72
Mr Rodney Gordon Higgins	2,094,226	1.68
SCJ Pty Limited <Jermyn Family A/C>	2,000,000	1.60
BNP Paribas Noms Pty Ltd <DRP>	1,523,272	1.22
Mr Stephen Craig Jermyn <Jermyn Family S/Fund A/C>	1,000,000	0.80
Pacific Custodians Pty Limited <Employee Incentive Tst>	848,486	0.68
T M Paddy Pty Ltd <Murray Ball Family A/C>	495,936	0.40
Macren Pty Ltd <Macren S/F A/C>	450,000	0.36
Est David Madden	400,000	0.32
Mr Mike Fegelson	400,000	0.32
Mr Kenneth John Mason & Mrs Alison Mason	400,000	0.32
Mr Peter David Ritchie & Mrs Leigh Margaret Ritchie < Richie Fam S/FD A/C>	314,863	0.25
T M Paddy Pty Ltd <Superball Fund A/C>	307,939	0.25
EMU Super Fund Pty Ltd < EMU Superannuation Fund A/c>	306,973	0.25
Mr Peter Higgins <Peter Higgins Superannuation Fund>	254,253	0.20
Chata Holdings Pty Ltd <Chata Super Fund A/C>	250,500	0.20
	71,678,449	**57.34**

Shareholder Information

For the year ended 30 June 2019

C) Substantial holders

Substantial holders in the Company are set out below:

	Number held
Ordinary Shares	
Spheria Asset Management Pty Ltd	23,651,652
Commonwealth Bank of Australia*	21,806,731
R G Higgins and Ochoa Pty Ltd	15,221,215
Pinnacle Investment Management Group Limited	6,939,466

* The relevant interests in 1,194,946 are/were held by Colonial First State Investment Limited (CFS) as responsible entity of the specified registered managed investment schemes and relate(d) to holdings in connection with the Colonial First State First Choice product range. Decisions to buy/sell those securities and exercise voting rights in relation to those securities are made by external managers (unrelated to the Commonwealth Bank Group) to whom CFS has outsourced those functions. By instrument dated 29 October 2001, the Australian Securities and Investments Commission has granted certain relief to CFS and its related bodies corporate for these holdings from the provisions of Chapter 6 of the Corporations Act in relation to the acquisition of such securities.

D) Voting rights

The voting rights attaching to each class of equity securities are set out below:

a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

b) Options

No voting rights.

Corporate Directory

As at 21 August 2019

Directors

V L Allen, **Chairman**
S J Brennan
S J Clancy
D Chandran
A C Gale
P G Higgins
R G Higgins

Chief Executive Officer

S R Mitchell

Secretary

I J Parkes

Executives

Chief Financial Officer
I J Parkes

General Manager, Distribution
N C Rose-Innes

General Manager, Group Marketing
M J McCarney

General Manager, Product & Corporate Communications
E A Dupont-Brown

General Manager, Financial Planning
T J Milnes

General Manager, Human Resources
M J Pitton

Head of IT
V C ten Krooden

Notice of Annual General Meeting

The Annual General Meeting of Mortgage Choice Limited

will be held at:
Mortgage Choice Limited
Level 10,
100 Pacific Highway
North Sydney NSW

Time: 10am
Date: 16 October 2019

Registered office
Level 10,
100 Pacific Highway
North Sydney NSW 2060

Phone: (02) 8907 0444

Share register
Link Market Services Limited
Level 12, 680 George St
Sydney NSW 2000

Phone: (02) 8280 7111

Auditor
Deloitte Touche Tohmatsu Chartered Accountants
Grosvenor Place
225 George Street
Sydney NSW 2000

Solicitors
Herbert Smith Freehills
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

Bankers
ANZ Banking Group Limited
116 Miller Street
North Sydney NSW 2060

Stock exchange listing
Mortgage Choice Limited shares are listed on the Australian Securities Exchange.

Website address
www.mortgagechoice.com.au

Mortgage Choice