# Mortgage Choice Limited ACN 009 161 979

## Interim report

## For the half-year ended 31 December 2020

# Mortgage Choice Limited
# Interim financial report for the half-year ended 31 December 2020

## Contents



This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Mortgage Choice Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Your Directors present their report on the consolidated entity consisting of Mortgage Choice Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2020, referred to hereafter as "Mortgage Choice", "the Mortgage Choice Group" or "the Group".

**Directors**

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

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

**Principal activities**

Mortgage Choice is a 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 & 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.

**Review of Operations**

The report on the Mortgage Choice Group for the half-year ended 31 December 2020 is as follows:

***Operational and financial results analysis***

Mortgage Choice's IFRS result for the six months to 31 December 2020 was $4.09m, up 3% on the prior year. Settlements for the period reached $6.1bn, an increase of 21% on the prior comparative period despite the challenges of the COVID-19 pandemic, while the loanbook stood at $54.1bn, slightly down on the 31 December 2019 level of $54.3 bn. The increase in revenue reflects the increase in settlements as future trailing income is recognised at the time of settlement under IFRS. This increase has been offset by a one-off adjustment of $0.9m, after tax, to the net present value of future trailing commission payable. This adjustment to the valuation of net trail commission reflects the elevated pay-out rate resulting from the higher settlements.

The IFRS result prior to this adjustment is $5.0m, up 26% on the prior year as shown in the table below:

| Underlying Statutory Results | **1H FY2020** | 1H FY2019 |
|---|---|---|
| | **$'000** | $'000 |
| **Profit after tax** | | |
| Underlying result after tax | **5,001** | 3,964 |
| Adjustment to NPV payable for changes in pay-out assumption | **(915)** | - |
| Total profit after tax | **4,086** | 3,964 |

Operating expenses for the half year increased by 1% compared to the prior comparative period.

Despite the challenges presented by COVID-19, Mortgage Choice has remained focused on delivering growth through regenerating the franchise network, maintaining a strong compliance framework and expanding the digital customer and broker experience. Solid underlying operating cash flows has helped to enable ongoing investment in IT platforms for future growth whilst increasing dividends to shareholders. During the period, Mortgage Choice implemented Best Interests legislative requirements which became effective on 1 January 2021. This involved system and process changes and associated training for both Group Office and credit representatives in the franchise network.

The impacts of COVID-19 on Mortgage Choice to date were all able to be successfully navigated to ensure the business and the franchisees remained open for business throughout periods of shutdown, including the stage four restrictions experienced in Victoria.

The financial planning division, FinChoice, is showing an IFRS loss for the six months to 31 December 2020 of $251k primarily due higher IT costs.

The Group's cash NPAT was $5.6m, an increase of 1% on the prior year despite the 21% increase in settlements. The low interest rate environment has seen an increase in refinance activity which, combined with an increase in offset account balances, has resulted in both a lower average loan book size and a 2% fall in cash trail revenue compared to the prior year. Trail payments to franchisees remained flat despite the fall in trail revenue. The pay-out percentage on upfront origination commissions increased from 78.0% to 79.2% in line with increased settlement levels.

The interim dividend of 4.0 cents is a 1.0 cent increase on the prior year.

**Auditor's independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

**Rounding**

The Group 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.

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

V Allen

Vicki Allen
Chairman

Sydney
17 February 2021

# Deloitte.

Deloitte Touche Tohmatsu
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Australia

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

17 February 2021

Dear Board Members

**Auditor's Independence Declaration to 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 review of the half year financial report of Mortgage Choice Limited for the half year ended 31 December 2020, 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 review; and

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants

**Mortgage Choice Limited**
**Condensed consolidated statement of profit and loss**
For the half-year ended 31 December 2020

| | Half-year ended | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **$'000** | $'000 |
| **Continuing operations** | | |
| **Revenue** | | |
| Origination commission | **36,423** | 30,888 |
| Trailing commission excluding discount unwind | **43,906** | 36,555 |
| Trailing commission discount unwind | **7,503** | 8,355 |
| Insurance trailing commission excluding discount unwind | **1,465** | 905 |
| Insurance trailing commission discount unwind | **345** | 425 |
| Diversified products commission | **2,494** | 2,123 |
| Financial Planning income | **3,529** | 3,391 |
| Franchise income | **575** | 545 |
| Interest | **185** | 257 |
| Other income | **200** | 414 |
| | **96,625** | 83,858 |
| **Direct costs** | | |
| Origination commission | **(28,831)** | (24,083) |
| Trailing commission excluding discount unwind | **(33,956)** | (26,563) |
| Trailing commission discount unwind – finance costs | **(5,307)** | (5,914) |
| Insurance trailing commission excluding discount unwind | **(1,244)** | (755) |
| Insurance trailing commission discount unwind – finance costs | **(292)** | (360) |
| Diversified products commission | **(1,867)** | (1,544) |
| Financial Planning payments | **(2,951)** | (2,793) |
| **Gross profit** | **22,177** | 21,846 |
| **Operating Expenses** | | |
| Sales | **(4,914)** | (5,142) |
| Technology | **(2,958)** | (3,005) |
| Marketing | **(3,452)** | (3,169) |
| Corporate | **(4,789)** | (4,633) |
| **Profit before extraordinary items and income tax** | **6,064** | 5,897 |
| Income tax expense | **(1,978)** | (1,933) |
| **Net profit attributable to the owners of Mortgage Choice Limited** | **4,086** | 3,964 |
| **Earnings per share** | **Cents** | Cents |
| From continuing operations | | |
| Basic earnings per share | **3.3** | 3.2 |
| Diluted earnings per share | **3.2** | 3.2 |

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

**Mortgage Choice Limited**
**Condensed consolidated statement of comprehensive income**
For the half-year ended 31 December 2020

| | Half-year ended | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **$'000** | $'000 |
| **Profit for the half-year** | **4,086** | 3,964 |
| Other comprehensive income | **-** | - |
| **Total comprehensive income attributable to the owners of Mortgage Choice Limited** | **4,086** | 3,964 |

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

**Mortgage Choice Limited**
**Condensed consolidated statement of financial position**
As at 31 December 2020

| | **31 December 2020 $'000** | 30 June 2020 $'000 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **4,698** | 6,108 |
| Trade and other receivables | **16,591** | 14,120 |
| Contract assets | **92,167** | 92,091 |
| Total current assets | **113,456** | 112,319 |
| **Non-current assets** | | |
| Receivables | **2,841** | 3,477 |
| Contract assets | **281,357** | 279,942 |
| Property, plant and equipment | **514** | 575 |
| Right of use assets | **2,932** | 3,472 |
| Intangible assets | **11,142** | 10,657 |
| Total non-current assets | **298,786** | 298,123 |
| **Total assets** | **412,242** | 410,442 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | **13,594** | 13,590 |
| Future trailing commissions payable | **68,036** | 66,956 |
| Lease liabilities | **1,147** | 1,100 |
| Current tax liabilities | **26** | 350 |
| Provisions | **1,211** | 1,326 |
| Total current liabilities | **84,014** | 83,322 |
| **Non-current liabilities** | | |
| Future trailing commissions payable | **205,491** | 203,724 |
| Lease liabilities | **2,068** | 2,659 |
| Deferred tax liabilities | **30,758** | 31,064 |
| Provisions | **699** | 724 |
| Total non-current liabilities | **239,016** | 238,171 |
| **Total liabilities** | **323,030** | 321,493 |
| **Net assets** | **89,212** | 88,949 |
| **EQUITY** | | |
| Contributed equity | **8,185** | 8,169 |
| Reserves | **2,499** | 1,963 |
| Retained profits | **78,528** | 78,817 |
| **Total equity** | **89,212** | 88,949 |

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

**Mortgage Choice Limited**
**Condensed consolidated statement of changes in equity**
As at 31 December 2020

| | Note | Contributed equity $'000 | Share based payments reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance as at 1 July 2019** | | **8,097** | **1,379** | **77,008** | **86,484** |
| Adjustment for adoption of AASB16 | | - | - | (116) | (116) |
| **Adjusted balance as at 1 July 2019** | | **8,097** | **1,379** | **76,892** | **86,368** |
| **Total comprehensive income for the half-year** | | **-** | **-** | **3,964** | **3,964** |
| **Transactions with equity holders in their capacity as owners:** | | | | | |
| Contributions of equity net of transaction costs | 5 | 16 | (16) | - | - |
| Dividends paid | 4 | - | - | (3,750) | (3,750) |
| Employee performance shares – value of employee services | | - | 138 | - | 138 |
| | | 16 | 122 | (3,750) | (3,612) |
| **Balance as at 31 December 2019** | | **8,113** | **1,501** | **77,106** | **86,720** |

| | Note | Contributed equity $'000 | Share based payments reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance as at 1 July 2020** | | **8,169** | **1,963** | **78,817** | **88,949** |
| **Total comprehensive income for the half-year** | | **-** | **-** | **4,086** | **4,086** |
| **Transactions with equity holders in their capacity as owners:** | | | | | |
| Contributions of equity net of transaction costs | 5 | 16 | (16) | - | - |
| Dividends paid | 4 | - | - | (4,375) | (4,375) |
| Employee performance shares – value of employee services | | - | 552 | - | 552 |
| | | 16 | 536 | (4,375) | (3,823) |
| **Balance as at 31 December 2020** | | **8,185** | **2,499** | **78,528** | **89,212** |

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

| | Half-year ended | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **$'000** | $'000 |
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of goods and services tax) | **101,797** | 95,808 |
| Payments to suppliers, franchisees and employees (inclusive of goods and services tax) | **(94,827)** | (85,198) |
| | **6,970** | 10,610 |
| Income taxes paid | **(2,609)** | (2,632) |
| **Net cash inflow from operating activities** | **4,361** | 7,978 |
| **Cash flows from investing activities** | | |
| Payments for property, plant, equipment and intangibles | **(1,848)** | (1,586) |
| Net repayment of/(increase in) loans to franchisees | **812** | 882 |
| Interest received | **185** | 257 |
| **Net cash (outflow) from investing activities** | **(851)** | (447) |
| **Cash flows from financing activities** | | |
| Proceeds/(repayment) of external borrowings | **-** | (2,000) |
| Payment of lease liabilities | **(545)** | (652) |
| Interest paid | **-** | (46) |
| Dividends paid | **(4,375)** | (3,750) |
| **Net cash (outflow) from financing activities** | **(4,920)** | (6,448) |
| **Net increase/(decrease) in cash and cash equivalents held** | **(1,410)** | 1,083 |
| Cash and cash equivalents at the beginning of the half-year | **6,108** | 1,927 |
| **Cash and cash equivalents at the end of the half-year** | **4,698** | 3,010 |

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

## Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Mortgage Choice Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial statements have been prepared on the basis that the entity is a going concern. This assessment is supported by a detailed review undertaken of the potential impacts on the business from the COVID-19 pandemic for the Group's 2020 annual financial report. A variety of downside scenarios were considered including the impact of a potential significant downturn in economic activity and the effect this would have on residential mortgage settlement flows and the trail book asset. The outcome of the scenario testing and subsequent economic activity provides support for the ability of the company to remain a going concern at the time of signing of the Financial Statements. The Group has significantly outperformed all scenarios modelled.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2020 annual financial report for the financial year ended 30 June 2020, except for the impact of the Standards and Interpretations described below. The changes in accounting policies will be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

**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 current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:
- AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business
- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material
- AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the effect of new IFRS standards not yet issued in Australia

The new and revised Standards and Interpretations adopted during the period do not materially affect the Group's accounting policies or any of the amounts recognised in the consolidated financial statements.

**Critical accounting estimates and assumptions**

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.

## Note 1 Basis of preparation of half-year report (continued)

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:

| | **31 December 2020** | **30 June 2020** | **31 December 2019** |
|---|---|---|---|
| Weighted average loan life | 4.04 years | 3.96 years | 3.97 years |
| Weighted average discount rate | 4.1% | 4.4% | 4.7% |
| Overall average percentage paid to franchisees | 72.8% | 72.3% | 72.3% |
| Average percentage paid to franchisees – under the current remuneration structure | 76.8% | 76.4% | 76.4% |

The Group considered the economic uncertainty caused by COVID-19 and its potential impacts on future trailing commissions. This has been reflected in the assumptions as detailed below:

*Weighted average loan life*
The weighted average loan life is determined by the future run-off rate of the underlying portfolio. In determining the valuation of future trail commission, the future run-off assumption selected is management's best estimate, given the uncertain future due to the impact of COVID-19 and its impact on the Australian economic environment. The valuation has been determined on the basis that, after higher rates experienced in the first half of FY 2021, run-off rates will return to the lower levels experienced in FY 2019 and first three quarters of FY 2020.

If on cessation of repayment holidays, a proportion of borrowers are considered to be in arrears, trail payments pertaining to these borrowers will cease. This will in turn be reflected through a higher run off rate which reduces the value of the contract asset. If run-off rates continued at the higher rates for the remainder of the year, net assets would decrease by $1.1m. Management considered these factors and the associated uncertainties when determining the repayment profile and assumptions applied in the valuations at 31 December 2020.

*Percentage paid to franchisees*
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. The payout rate, which is determined by settlement volumes and loanbook size, has been adjusted to reflect the higher rate currently being experienced. The long term rate, however, is expected to remain consistent with prior years. A +/-0.5% change in payout ratio would lead to an increase/decrease in the payable of $1.5m, representing 0.65% of the recognised payable balance.

*Discount rate*
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.

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. Any resulting adjustment to the carrying value is recognised as income or expense in the income statement.

## Note 2 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.

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 FinChoice financial planning. The Group operates only in Australia.

### (b) Information provided to the Chief Executive Officer

Information provided to the Chief Executive Officer for the purpose of making strategic and operating decisions for the half-year ended 31 December 2020 is as follows:

**Product Segments**

| **2020** | **Total** | **MOC** | **FinChoice** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Revenue | 96,625 | 91,229 | 5,396 |
| Gross Profit (IFRS) | 22,177 | 21,303 | 874 |
| Gross profit (cash) | 23,517 | 22,524 | 993 |
| Depreciation and amortisation | 1,424 | 1,395 | 29 |
| Amortisation of right-of-use asset | 540 | 540 | - |
| OPEX (excl SBP[1]) | 15,560 | 14,311 | 1,249 |
| Income tax expense | 1,978 | 2,091 | (113) |
| NPAT (IFRS) | 4,086 | 4,337 | (251) |
| NPAT (cash) | 5,577 | 5,760 | (183) |

| **2019** | **Total** | **MOC** | **FinChoice** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Revenue | 83,858 | 79,096 | 4,762 |
| Gross Profit (IFRS) | 21,846 | 21,018 | 828 |
| Gross profit (cash) | 23,902 | 22,925 | 977 |
| Depreciation and amortisation | 1,357 | 1,357 | - |
| Amortisation of right-of-use asset | 580 | 580 | - |
| OPEX (excl SBP[1]) | 15,811 | 14,504 | 1,307 |
| Income tax expense | 1,933 | 2,077 | (144) |
| NPAT (IFRS) | 3,964 | 4,292 | (328) |
| NPAT (cash) | 5,541 | 5,774 | (233) |

[1] Share based remuneration

## Note 2 Segment information (continued)

### IFRS versus Cash

| | 2020 | 2019 | % change | | 2020 | 2019 | % change |
|---|---|---|---|---|---|---|---|
| | IFRS | | | | Cash[2] | | |
| | $'000 | $'000 | | | $'000 | $'000 | |
| Origination commission | 36,423 | 30,888 | 18% | | 36,423 | 30,888 | 18% |
| Trailing commission | 51,409 | 44,910 | 14% | | 49,143 | 50,069 | (2%) |
| | 87,832 | 75,798 | 16% | | 85,566 | 80,957 | 6% |
| Origination commission paid | 28,831 | 24,083 | 20% | | 28,831 | 24,083 | 20% |
| Trailing commission paid[1] | 39,263 | 32,477 | 21% | | 35,776 | 35,730 | 0% |
| | 68,094 | 56,560 | 20% | | 64,607 | 59,813 | 8% |
| **Net core commission** | 19,738 | 19,238 | 3% | | 20,959 | 21,144 | (1%) |
| Diversified products net revenue | 616 | 573 | 8% | | 663 | 614 | 8% |
| Financial Planning net revenue | 863 | 819 | 5% | | 935 | 928 | 1% |
| Other income | 960 | 1,216 | (21%) | | 960 | 1,216 | (21%) |
| **Gross profit** | 22,177 | 21,846 | 2% | | 23,517 | 23,902 | (2%) |
| Operating expenses | 15,560 | 15,811 | (2%) | | 15,560 | 15,811 | (2%) |
| Share based remuneration | 553 | 138 | 301% | | - | - | |
| Net profit before tax | 6,064 | 5,897 | 3% | | 7,957 | 8,091 | (2%) |
| **Net profit after tax** | 4,086 | 3,964 | 3% | | 5,577 | 5,541 | 1% |

[1] IFRS trailing commission income and trailing commission paid include discount unwind as itemised in the condensed consolidated statement of profit and loss.
[2] Cash excludes share based remuneration and the net present value of future trailing commissions receivable and payable for mortgage and life insurance products.

The following provides additional detail to assist in reconciliation of the above table to the condensed consolidated statement of profit and loss:

| | 2020 | 2019 | % change | | 2020 | 2019 | % change |
|---|---|---|---|---|---|---|---|
| | IFRS | | | | Cash | | |
| | $'000 | $'000 | | | $'000 | $'000 | |
| Diversified products commissions | 2,448 | 2,092 | 17% | | 2,640 | 2,260 | 17% |
| Diversified products commissions paid | 1,832 | 1,519 | 21% | | 1,977 | 1,646 | 20% |
| **Diversified products net revenue** | 616 | 573 | 8% | | 663 | 614 | 8% |
| Financial Planning revenue | 5,385 | 4,752 | 13% | | 5,967 | 5,560 | 7% |
| Financial Planning payments | 4,522 | 3,933 | 15% | | 5,032 | 4,632 | 9% |
| **Financial Planning net revenue** | 863 | 819 | 5% | | 935 | 928 | 1% |
| Franchise Income | 575 | 545 | 6% | | 575 | 545 | 6% |
| Interest | 185 | 257 | (28%) | | 185 | 257 | (28%) |
| Other income | 200 | 414 | (52%) | | 200 | 414 | (52%) |
| **Other income** | 960 | 1,216 | (21%) | | 960 | 1,216 | (21%) |

## Note 2 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 table:

| **2020** | **Total** | **Diversified Products** | **Financial Planning** |
|---|---|---|---|
| **Consolidated Income statement** | | **$'000** | **$'000** |
| **Revenue** | | | |
| Diversified products commission | 2,494 | 2,365 | 129 |
| Insurance trailing commission excluding discount unwind | 1,465 | 57 | 1,408 |
| Insurance trailing commission discount unwind | 345 | 26 | 319 |
| Financial Planning income | 3,529 | - | 3,529 |
| | | 2,448 | 5,385 |
| **Direct costs** | | | |
| Diversified products commission | 1,867 | 1,772 | 95 |
| Insurance trailing commission excluding discount unwind | 1,244 | 40 | 1,204 |
| Insurance trailing commission discount unwind | 292 | 20 | 272 |
| Financial Planning payments | 2,951 | - | 2,951 |
| | | 1,832 | 4,522 |

| **2019** | **Total** | **Diversified Products** | **Financial Planning** |
|---|---|---|---|
| **Consolidated Income statement** | | **$'000** | **$'000** |
| **Revenue** | | | |
| Diversified products commission | 2,123 | 2,092 | 31 |
| Insurance trailing commission excluding discount unwind | 905 | - | 905 |
| Insurance trailing commission discount unwind | 425 | - | 425 |
| Financial Planning income | 3,391 | - | 3,391 |
| | | 2,092 | 4,752 |
| **Direct costs** | | | |
| Diversified products commission | 1,544 | 1,519 | 25 |
| Insurance trailing commission excluding discount unwind | 755 | - | 755 |
| Insurance trailing commission discount unwind | 360 | - | 360 |
| Financial Planning payments | 2,793 | - | 2,793 |
| | | 1,519 | 3,933 |

## Note 2 Segment information (continued)

Other information

*(i) Operating income*

Operating income from the origination of a residential mortgage is comprised of origination 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 methods in measuring the Group's performance.

*(ii) Net profit after tax*

The cash net profit after tax reconciles to the reported profit after tax as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$'000** | $'000 |
| **Cash Net profit after tax** | **5,577** | 5,541 |
| NPV future trails on new loans originated, net of payout | **7,144** | 5,806 |
| Less net cash from trail previously recognised under IFRS | **(7,990)** | (7,850) |
| NPV future trails on new insurance policies, net of payout | **127** | 104 |
| Less net cash trail from insurance policies previously recognised under IFRS | **(211)** | (208) |
| Less adjustments to loan book assumptions | **(915)** | - |
| Gain/(loss) on prepayment/(establishment) of trail liability | **535** | 326 |
| Plus reversal of amortisation of trail liability[1] | **372** | 383 |
| Less share based payments expense | **(553)** | (138) |
| **IFRS** | **4,086** | 3,964 |

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

*(iii) Timing of revenue recognition*

| | **2020** | 2019 |
|---|---|---|
| | **$'000** | $'000 |
| **Performance obligations met at a point in time** | | |
| **MOC** | | |
| Origination commission | **36,423** | 30,888 |
| Trailing commission | **51,409** | 44,910 |
| Diversified products commissions | **2,448** | 2,092 |
| Franchise Income | **575** | 545 |
| Other income | **190** | 404 |
| | **91,045** | 78,839 |
| **FinChoice** | | |
| Financial planning revenue | **3,472** | 3,078 |
| Other income | **6** | 6 |
| | **3,478** | 3,084 |
| **Total Point in time revenue** | **94,523** | 81,923 |
| **Performance obligations met over time** | | |
| **FinChoice** | | |
| Financial planning revenue | **1,913** | 1,674 |
| Other income | **4** | 4 |
| **Total Point over time revenue** | **1,917** | 1,678 |

## Note 3 Financial Instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values with the exception of those listed in the following table. The carrying amount represents the net present value of trailing commissions receivable and payable recorded at expected value at the time of recognition and carried at amortised cost.

| | **31 December 2020** | | 30 June 2020 | |
|---|---|---|---|---|
| | **Carrying amount $'000** | **Fair value $'000** | Carrying amount $'000 | Fair value $'000 |
| **Contract assets** | | | | |
| Future Trailing Commission Receivable – Current | **92,167** | **92,403** | 92,091 | 92,366 |
| Future Trailing Commission Receivable - Non current | **281,357** | **300,161** | 279,942 | 302,036 |
| **Financial liabilities** | | | | |
| Future Trailing Commission Payable – Current | **68,036** | **68,294** | 66,956 | 66,880 |
| Future Trailing Commission Payable – Non current | **205,491** | **219,572** | 203,724 | 219,127 |

## Note 4 Dividends

| | **Half-year** | |
|---|---|---|
| | **2020 $'000** | 2019 $'000 |
| **Ordinary shares** | | |
| Dividends provided for or paid during the half-year | **4,375** | 3,750 |
| **Dividends not recognised at the end of the half-year** | | |
| In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of 4.0 cents per fully paid ordinary share (2019 – 3.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 April 2021 out of retained profits at 31 December 2020, but not recognised as a liability at the end of the half-year, is | **5,000** | 3,750 |

## Note 5 Equity securities issued

| | **2020 Shares** | 2019 Shares | **2020 $'000** | 2019 $'000 | | |
|---|---|---|---|---|---|---|
| | | | | | - | - |
| **Issues of ordinary shares during the half-year** | **-** | **-** | **-** | - | | |
| **Issues of treasury shares during the half year** | | | | | | |
| Shares issued under the Mortgage Choice Performance Share Plan and Performance Rights Plan to employees | 13,006 | 12,055 | 16 | 16 | | |

## Note 6 Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 31 December 2020 in respect of:

***Guarantees***
Australian and New Zealand (ANZ) bank guarantee of $803,747 (2019: $852,063).

***Contingent claims***
From time to time, disputes occur between the group and its franchisees in the normal course of operation, a number of which may be unresolved at any point in time. At 31 December 2020, there were no disputes or claims in progress that are expected to have a material financial impact on the group.

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

## Note 7 Events occurring after the balance sheet date

No matter or circumstance has arisen subsequent to 31 December 2020 that has significantly affected, or may significantly affect:

(a) the group’s operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the group’s state of affairs in future financial years.

**COVID-19**

As COVID-19 continues to impact the Australian and Global, economy the Board continues to assess its impact on the business and the appropriate business mitigants, and to date no adverse events have occurred.

**Mortgage Choice Limited**
**Directors' declaration**
31 December 2020

In the Directors' opinion:

(a) the financial statements and notes set out on pages 6 to 18 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 31 December 2020 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Mortgage Choice Limited will be able to pay its debts as and when they become due and payable.

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

Vicki Allen
Chairman

Sydney
17 February 2021

Deloitte.

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

*Conclusion*

We have reviewed the half-year financial report of Mortgage Choice Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 6 to 19.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual 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 Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Directors' Responsibilities for the Half-year Financial Report*

The directors of the Group are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants
Sydney, 17 February 2021