Mortgage Choice Limited
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ABN: 57 009 161 979

Appendix 4D
Preliminary Half Year Report
31 December 2018

Lodged with the ASX under Listing Rule 4.2A on 21 February 2019

Reporting Period

This report covers the half year period from 1 July 2018 to 31 December 2018. The previous corresponding period was the half year from 1 July 2017 to 31 December 2017.

Results for announcement to market

Discussion and analysis of statutory results

Operational and financial results analysis

July 2018 saw Mortgage Choice initiate the biggest change program in its history. The focus of this change program was to ensure we have a sustainable business and a strong platform on which to grow over the long term. Our first step was to introduce a new remuneration model to our broker network. This new model was the result of extensive consultation across the network and a review of the competitive landscape.

Mortgage Choice has delivered an interim statutory profit of $6.4m for the half year to 31 December 2018, a fall of 44% on the prior comparative period. The changes to the broker remuneration model account for the majority of this fall.

In addition, the environment Mortgage Choice operates in has changed. Settlement volumes have been impacted by the slowing property and home loan markets. Loan applications are taking longer to approve due to tightening lending policies. The uncertainty surrounding the Royal Commission into Misconduct in Banking recommendations has added to this, to create a very different operating environment for Mortgage Choice and its network of franchisees compared to a year ago.

Mortgage Choice's settlements of $5.3bn for the half fell 12% from the prior comparative period of $6.0bn, reducing upfront revenue and the statutory calculation of trailing commission. The loan book showed an increase of 1.0% reaching $54.5 billion at 31 December 2018 compared to $54.0 billion for the prior comparative period.

The interim dividend of 3 cents is in line with cash profits decreasing by 43% from $12.5m in the prior comparative period to $7.1m for the six months ended 31 December 2018. Mortgage Choice's Board of Directors has decided it is prudent to retain a proportion of the company's earnings to address the uncertainty arising from the Royal Commission into Misconduct in Banking recommendations regarding broker remuneration.

<u>**Financial Summary**</u>	6 months to 31-Dec-17	6 months to 31-Dec-18	% change Dec-17 – Dec 18
	$000's	$000's	
Total revenue from ordinary activities	95,676	87,197	(9%)
Total result before tax	16,646	9,326	(44%)
Profit from ordinary activities after tax attributable to members	11,436	6,388	(44%)
Net tangible asset backing per ordinary share	78.5 cents	58.7 cents	(25%)

Dividends

Details of dividends/distributions declared or paid during the twelve months ended 31 December 2018 are as follows:

Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
10 October 2018	Final	9.0 cents	$11,250,000	9.0 cents	-
22 March 2018	Interim	9.0 cents	$11,250,000	9.0 cents	-

Subsequent to 31 December 2018, a fully franked interim dividend of 3 cents was declared on 20 February 2019 and it is expected to be paid on 15 April 2019. The record date for determining entitlement to this dividend will be 29 March 2019.

Non IFRS Cash Results

The Company also presents its non IFRS cash results from ordinary activities of $7,142,000, after tax which is a 43% decrease on the previous corresponding period. Further discussion regarding the cash results can be found in the Company's Half Year Presentation.

Mortgage Choice Limited ACN 009 161 979
Interim report
For the half-year ended 31 December 2018

Mortgage Choice Limited
Interim financial report for the half-year ended 31 December 2018

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 2018 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 2018, 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
S J Clancy
A C Gale
P G Higgins
R G Higgins
S C Jermyn

Subsequent to 31 December 2018, on 20 February 2019 Dharmendra Chandran was appointed a Director of Mortgage Choice Limited.

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;
- 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 2018 is as follows:

Operational and financial results analysis

July 2018 saw Mortgage Choice initiate the biggest change program in its history. The focus of this change program was to ensure we have a sustainable business and a strong platform on which to grow over the long term. Our first step was to introduce a new remuneration model to our broker network. This new model was the result of extensive consultation across the network and a review of the competitive landscape.

Mortgage Choice Limited
Directors' report
As at 31 December 2018

Mortgage Choice has delivered an interim statutory profit of $6.4m for the half year to 31 December 2018, a fall of 44% on the prior comparative period. The changes to the broker remuneration model account for the majority of this fall.

In addition, the environment Mortgage Choice operates in has changed. Settlement volumes have been impacted by the slowing property and home loan markets. Loan applications are taking longer to approve due to tightening lending policies. The uncertainty surrounding the Royal Commission into Misconduct in Banking recommendations has added to this, to create a very different operating environment for Mortgage Choice and its network of franchisees compared to a year ago.

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Matters subsequent to balance sheet date

The final report of the Royal Commission into Misconduct in Banking was released on 4 February 2019. Among the recommendations made, was a recommendation to ban trailing commissions to mortgage brokers for new loans. The final report states these changes are prospective and there are no changes to the existing trail loan book. As at reporting date, the recommendations have not yet been legislated and accordingly it is the Group's judgment that the release of the report recommendations is a non-adjusting subsequent event and has no impact on the reported financial performance.

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.

Vicki Allen
Chairman

Sydney
20 February 2019

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

20 February 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 review of the financial statements of Mortgage Choice Limited for the half-year ended 31 December 2018, 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 sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants

Mortgage Choice Limited
Condensed consolidated statement of profit and loss
For the half-year ended 31 December 2018

	Note	Half-year ended 31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations			
Revenue			
Origination commission		**32,091**	36,208
Trailing commission excluding discount unwind		**36,218**	39,874
Trailing commission discount unwind		**9,205**	9,105
Insurance trailing commission excluding discount unwind		**48**	-
Insurance trailing commission discount unwind		**461**	-
Diversified products commission		**2,413**	3,613
Financial Planning income		**5,351**	5,598
Franchise income		**508**	517
Interest		**306**	296
Other income		**596**	465
		87,197	95,676
Direct costs			
Origination commission		**(24,639)**	(24,839)
Trailing commission excluding discount unwind		**(24,658)**	(24,539)
Trailing commission discount unwind – finance costs		**(6,575)**	(5,612)
Insurance trailing commission excluding discount unwind		**(12)**	-
Insurance trailing commission discount unwind – finance		**(386)**	-
Diversified products commission		**(1,767)**	(2,736)
Financial Planning commission		**(4,428)**	(4,533)
Gross profit		**24,732**	33,417
Operating Expenses			
Sales		**(4,734)**	(5,396)
Technology		**(2,978)**	(2,639)
Marketing		**(3,776)**	(4,240)
Corporate		**(3,918)**	(4,496)
Profit before extraordinary items and income tax		**9,326**	16,646
Income tax expense		**(2,938)**	(5,210)
Net profit attributable to the owners of Mortgage Choice Limited		**6,388**	11,436
Earnings per share		**Cents**	Cents
From continuing operations			
Basic earnings per share		**5.1**	9.2
Diluted earnings per share		**5.1**	9.1

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 2018

	Half-year ended	
	31 Dec 2018	31 Dec 2017
	$'000	$'000
Profit for the half-year	**6,388**	11,436
Other comprehensive income	**-**	-
Total comprehensive income attributable to the owners of Mortgage Choice Limited	**6,388**	11,436

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 2018

	Note	**31 December 2018 $'000**	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**455**	3,353
Trade and other receivables		**108,777**	104,038
Current tax assets		**112**	112
Total current assets		**109,344**	107,503
Non-current assets			
Receivables		**283,549**	275,685
Property, plant and equipment		**847**	686
Intangible assets		**9,359**	8,562
Total non-current assets		**293,755**	284,933
Total assets		**403,099**	392,436
LIABILITIES			
Current liabilities			
Trade and other payables		**81,206**	77,211
External borrowings	3	**3,000**	-
Provisions		**1,194**	1,258
Total current liabilities		**85,400**	78,469
Non-current liabilities			
Trade and other payables		**201,429**	196,711
External borrowings		**1,000**	-
Deferred tax liabilities		**31,813**	30,913
Provisions		**757**	691
Total non-current liabilities		**234,999**	228,315
Total liabilities		**320,399**	306,784
Net assets		**82,700**	85,652
EQUITY			
Contributed equity		**8,040**	7,764
Reserves		**1,238**	1,309
Retained profits		**73,422**	76,579
Total equity		**82,700**	85,652

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 2018

	Note	Contributed equity $'000	Share based payments reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2017		**7,277**	**2,075**	**94,836**	**104,188**
Total comprehensive income for the half-year		**-**	**-**	**11,436**	**11,436**
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	5	487	(487)	-	-
Dividends paid	4	-	-	(11,246)	(11,246)
Employee performance shares – value of employee services		-	537	-	537
		487	50	(11,246)	(10,709)
Balance as at 31 December 2017		**7,764**	**2,125**	**95,026**	**104,915**
Balance as at 1 July 2018		**7,764**	**1,309**	**76,579**	**85,652**
Adjustment for adoption of AASB15	1	-	-	1,705	1,705
Adjusted balance as at 1 July 2018		**7,764**	**1,309**	**78,284**	**87,357**
Total comprehensive income for the half-year		**-**	**-**	**6,388**	**6,388**
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	5	276	(276)	-	-
Dividends paid	4	-	-	(11,250)	(11,250)
Employee performance shares – value of employee services		-	205	-	205
		276	(71)	(11,250)	(11,145)
Balance as at 31 December 2018		**8,040**	**1,238**	**73,422**	**82,700**

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

Mortgage Choice Limited
Condensed consolidated statement of cash flows
For the half-year ended 31 December 2018

	Half-year ended	
	31 Dec 2018	31 Dec 2017
	$'000	$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**96,163**	105,314
Payments to suppliers and employees (inclusive of goods and services tax)	**(86,687)**	(87,894)
	9,476	17,420
Income taxes paid	**(2,770)**	(5,535)
Net cash inflow from operating activities	**6,706**	11,885
Cash flows from investing activities		
Payments for property, plant, equipment and intangibles	**(1,951)**	(1,609)
Loans to franchisees	**(694)**	(891)
Interest received	**306**	296
Net cash (outflow) from investing activities	**(2,339)**	(2,204)
Cash flows from financing activities		
External borrowings	**4,000**	-
Interest paid	**(15)**	-
Dividends paid	**(11,250)**	(11,246)
Net cash (outflow) from financing activities	**(7,265)**	(11,246)
Net decrease in cash and cash equivalents held	**(2,898)**	(1,565)
Cash and cash equivalents at the beginning of the half-year	**3,353**	8,646
Cash and cash equivalents at the end of the half-year	**455**	7,081

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

1. Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2018 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 2018 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 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 2018 annual financial report for the financial year ended 30 June 2018, 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 2019. 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 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 has 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.

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.

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 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.
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.

Mortgage Choice has the following major 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 31 December 2018, the group has outstanding loan receivables from various franchisees totalling $6.9m ($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.

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.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised services to its customers.

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.

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.	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	AASB 15 did not have a significant impact on the Group's accounting policies.

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
			the loan is settled with the lender. The transaction price is adjusted for any expected clawbacks using the expected value method.	
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.	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.	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.

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.	Revenue is recognised when the commissions are received or receivable.	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.	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	Revenue from the provision of financial services is recognised at the time the service is provided.	Annual ongoing service revenue is recognised over a period of time. A time elapsed method is used to measure progress towards completion.	AASB 15 did not have a significant impact on the Group's accounting policies.

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
	time. As such, these services will be recognised as a bundle of services over time.			
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.	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.	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.	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	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.

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
			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 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**

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.

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. An associated expense and payable to the franchisees are also recognised, initially measured at fair value being the net present value of the expected future trailing commission payable to franchisees.

The value of trailing commissions receivable and the corresponding payable to franchisees is determined by using the discounted cash flow valuation technique. These calculations require the use of assumptions. The key assumptions underlying the calculations of trailing commissions receivable and the corresponding payable to franchisees at balance date include the average loan life, discount rate and the percentage paid to franchisees.

The determination of the assumptions to be used in the valuation made by Management is based primarily on two factors: an annual assessment at year end, with external actuaries, 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 2018	**30 June 2018**	**31 December 2017**
Weighted average loan life	4.0 years	4.0 years	3.7 years
Weighted average discount rate	5.3%	5.4%	5.6%
Percentage of commissions received paid to franchisees (10 year average)	72%	72%	62%

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.

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 Mortgage Choice Financial Planning (MCFP). 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 2018 is as follows:

Product Segments

2018	**Total $'000**	**MOC $'000**	**MCFP $'000**
Revenue (IFRS)	87,197	81,895	5,302
Gross Profit (IFRS)	24,732	23,808	924
Gross profit (cash)	25,517	24,483	1,034
Depreciation and amortisation	992	992	-
OPEX (excl SBR)[1]	15,201	14,212	989
Income tax expense	2,938	2,958	(20)
NPAT (IFRS)	6,388	6,434	(46)
NPAT (cash)	7,142	7,107	35

2. Segment information (continued)

2017	Total $'000	MOC $'000	MCFP $'000	HMC[2] $'000
Revenue (IFRS)	95,676	90,033	5,622	21
Gross Profit (IFRS)	33,417	32,307	1,089	21
Gross profit (cash)	34,228	32,891	1,089	248
Depreciation and amortisation	762	762	-	-
OPEX (excl SBR)[1]	16,234	15,420	814	-
Income tax expense	5,210	5,129	75	6
NPAT (IFRS)	11,436	11,247	174	15
NPAT (cash)	12,540	12,166	200	174

[1] Share based remuneration
[2] HMC is no longer considered a reportable segment

Cash versus IFRS

	2018	2017	% change		2018	2017	% change
	Cash[1]				IFRS		
	$000's	$000's			$000's	$000's	
Origination commission income[3]	32,091	36,208	(11%)		32,091	36,208	(11%)
Trailing commission income[2,3]	50,155	49,289	2%		45,932	48,979	(6%)
	82,246	85,497	(4%)		78,023	85,187	(8%)
Origination commission paid	24,639	24,839	(1%)		24,639	24,839	(1%)
Trailing commission paid[2]	35,179	29,877	18%		31,631	30,151	5%
	59,818	54,716	(9%)		56,270	54,990	2%
Net core commissions	**22,428**	**30,781**	**(27%)**		**21,753**	**30,197**	**(28%)**
Diversified products net revenue	660	877	(25%)		646	877	(26%)
Financial planning net revenue	1,019	1,065	(4%)		923	1,065	(13%)
Other income[3]	1,410	1,505	(6%)		1,410	1,278	10%
Gross Profit	**25,517**	**34,228**	**(25%)**		**24,732**	**33,417**	**(26%)**
Operating Expenses	15,201	16,234	(6%)		15,201	16,234	(6%)
Share based remuneration	-	-			205	537	(62%)
Net profit before tax	10,316	17,994	(43%)		9,326	16,646	(44%)
Net profit after tax	**7,142**	**12,540**	**(43%)**		**6,388**	**11,436**	**(44%)**

[1] Cash excludes share based remuneration and the net present value of future trailing commissions receivable and payable for mortgage and life insurance products.
[2] IFRS trailing commission income and trailing commission paid include discount unwind as itemised in the condensed consolidated statement of profit and loss.
[3] Commissions received in 2017 representing the margin earned on white label products have been reclassified from other income to origination commission ($554) and trailing commission ($304)

2. Segment information (continued)

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

	2018	2017	% change		2018	2017	% change
	Cash				IFRS		
	$000's	$000's			$000's	$000's	
Diversified products commission	2,477	3,613	(31%)		2,413	3,613	(33%)
Diversified products commissions paid	1,817	2,736	(34%)		1,767	2,736	(35%)
Diversified products net revenue	**660**	**877**	**(25%)**		**646**	**877**	**(26%)**
Financial planning revenue	5,795	5,598	4%		5,351	5,598	(4%)
Financial planning commissions paid	4,776	4,533	5%		4,428	4,533	(2%)
Financial planning net revenue	**1,019**	**1,065**	**(4%)**		**923**	**1,065**	(13%)
Franchise income	508	517	(2%)		508	517	(2%)
Interest	306	296	3%		306	296	3%
Help Me Choose commissions	10	248	(96%)		10	21	(52%)
Other Income[1]	586	444	32%		586	444	32%
Other income	**1,410**	**1,505**	**(6%)**		**1,410**	**1,278**	**10%**

[1] Commissions received in 2017 representing the margin earned on white label products have been reclassified from other income to origination commission ($554) and trailing commission ($304).

(c) 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. Prior to the introduction of IFRS in 2006, trailing commission was recognised as income as it became due over the life of a loan. Under IFRS, the future trailing cash flows to be received over the life of a loan are estimated, discounted to present value and recognised at the time a loan settles. The Chief Executive Officer considers both methods in measuring the Group's performance.

2. Segment information (continued)

(ii) Net profit after tax

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

	2018 $000's	2017 $000's
Cash Net profit after tax	**7,142**	**12,540**
NPV future trails on new loans originated, net of payout	5,707	9,980
Less net cash from trail previously recognised under IFRS	(8,227)	(10,416)
NPV future trails on new insurance policies, net of payout	103	-
Less net cash trail from insurance policies previously recognised under IFRS	(180)	-
Plus adjustments to loan book assumptions	-	-
Gain/(loss) on prepayment/(establishment) of trail liability	1,756	-
Plus reversal of amortisation of trail liability[1]	292	28
NPV future trails adjustment Help Me Choose policies	-	20
Less net cash from trail from Help Me Choose policies previously recognised under IFRS	-	(179)
Less share based payments expense	(205)	(537)
IFRS	**6,388**	**11,436**

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

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 fair value at the time of recognition and carried at amortised cost.

	31 December 2018		30 June 2018	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Contract assets[1]				
Future Trailing Commission Receivable – Current[2]	**93,357**	**93,422**	89,640	89,917
Future Trailing Commission Receivable - Non current[2]	**278,631**	**285,884**	271,273	280,214

[1] Future Trailing Commission Receivable was recognised as a financial asset under AASB 139 for FY18. It is now recognised as a contract asset under AASB 15. See Note 1 for further details

[2] Including future insurance trailing commissions receivable carrying amount and fair value of $3,994 – current and $11,305 – non-current

3. Financial Instruments (continued)

Financial liabilities

Future Trailing Commission Payable – Current[1]	**67,237**	**67,046**	63,811	63,710
Future Trailing Commission Payable – Non current[1]	**201,429**	**206,172**	196,710	202,591
External borrowings - Current	**3,000**	**3,000**	-	-
External borrowings – Non current	**1,000**	**1,000**	-	-

[2] Including future insurance trailing commissions payable carrying amount and fair value of $3,384 – current and $9,587 – non-current

External borrowings
During the half-year, the Group obtained a new loan facility to the amount of $4,500,000. As at 31 December 2018, the outstanding amount is $4,000,000. 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 31 December 2018, the Group was compliant with these covenants.

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

4. Dividends

	Half-year	
	2018	2017
	$'000	$'000
Ordinary shares		
Dividends provided for or paid during the half-year	**11,250**	11,246
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 3 cents per fully paid ordinary share (2017 – 9.0 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 April 2019 out of retained profits at 31 December 2018, but not recognised as a liability at the end of the half-year, is	**3,750**	11,250

5. Equity securities issued

	2018	2017	**2018**	2017
	Shares	Shares	**$'000**	$'000
Issues of ordinary shares during the half-year				
Shares issued under the Mortgage Choice Performance Share Plan and Performance Rights Plan	137,423	207,754	276	487

6. Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 31 December 2018 in respect of:

Guarantees
Australian and New Zealand (ANZ) bank guarantee of $883,093 (2017: $723,150).

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 2018, 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.

7. Events occurring after the balance sheet date

The final report of the Royal Commission into Misconduct in Banking was released on 4 February 2019. Among the recommendations made, was a recommendation to ban trailing commissions to mortgage brokers for new loans. The final report states these changes are prospective and there are no changes to the existing trail loan book. As at reporting date, the recommendations have not yet been legislated and accordingly it is the Group's judgment that the release of the report recommendations is a non-adjusting subsequent event and has no impact on the reported financial performance.

No other matter or circumstance has arisen subsequent to 31 December 2018 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.

Mortgage Choice Limited
Directors' declaration
31 December 2018

In the Directors' opinion:

(a) the financial statements and notes set out on pages 6 to 24 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 2018 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
20 February 2019

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

We have reviewed the accompanying half-year financial report of Mortgage Choice Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit and loss, 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, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half year as set out on pages 6 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company 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 Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 consolidated entity's financial position as at 31 December 2018 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*. As the auditor of Mortgage Choice Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mortgage Choice Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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 Mortgage Choice Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 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*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants
Sydney, 20 February 2019