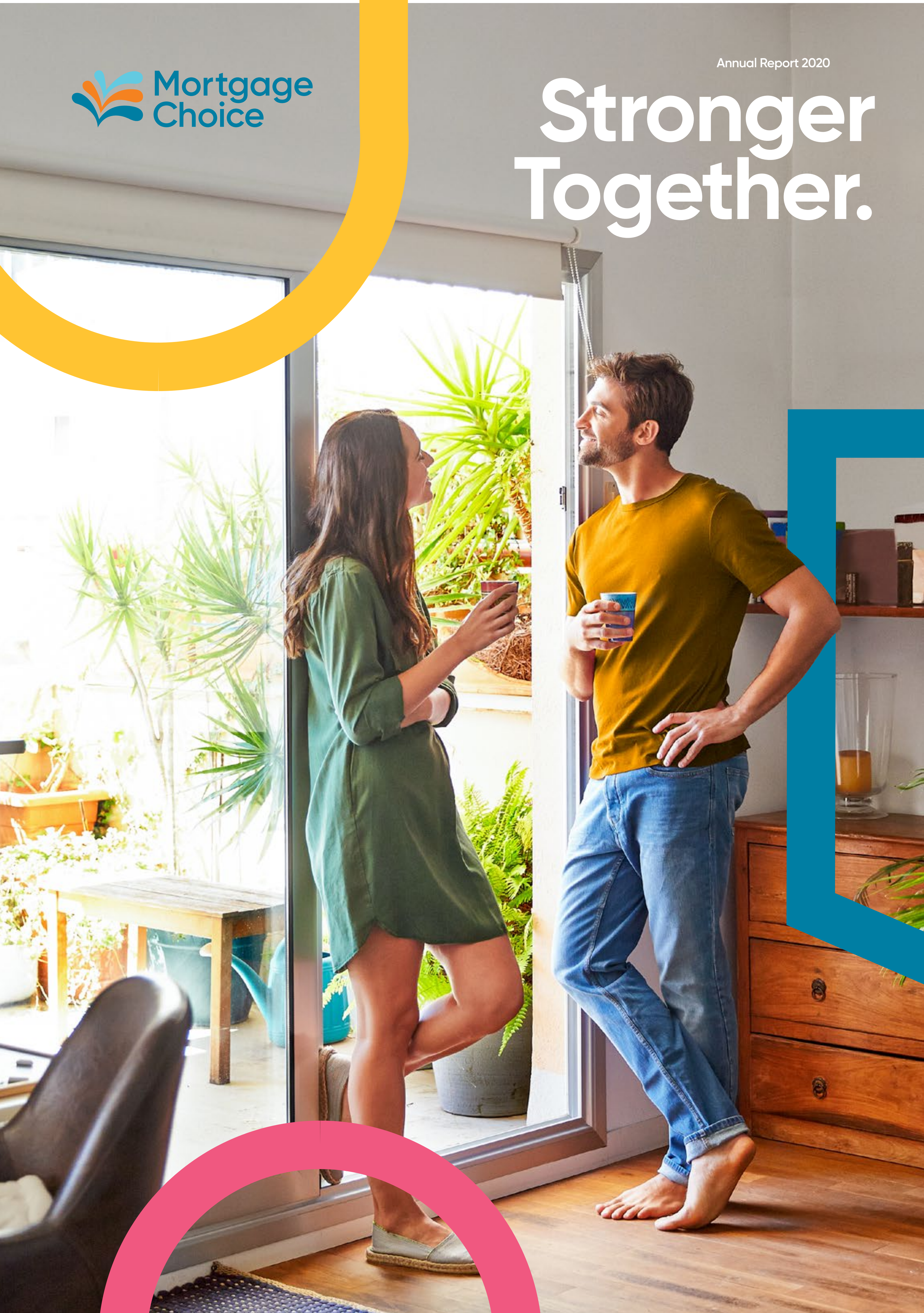
Mortgage Choice

Annual Report 2020

# Stronger Together.



## Contents



# In times of uncertainty, Australians turn to the brands and people they can trust, and we have continued to be there every step of the way.

**$54.0bn** loan book in FY 2020

across **28** lenders

**34k+** home loans written in FY 2020

annual report 2020

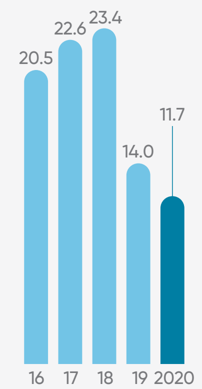
Mortgage Choice

# We remain committed to supporting Australians through the good times and the hard times, to help them be financially stronger.

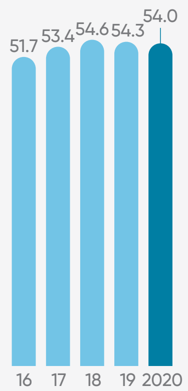
FY 2020 has called for Mortgage Choice to be more adaptive, resilient and responsive to support our customers throughout a period of immense challenges.

Fostering lasting relationships remains at the heart of what we do, and we have continued to be there every step of the way. To support these relationships we have delivered innovative software, training and support, growing our franchisees' businesses and delivering value at every stage of our consumers' journey.

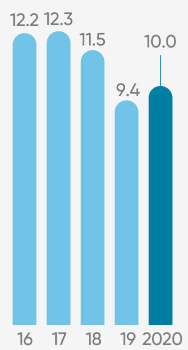
Through this strong and continued investment in technology platforms and enhanced productivity over recent years, Mortgage Choice has had the solid foundations to remain resilient throughout the year and be there for our customers when they've needed us most. We are Stronger Together.



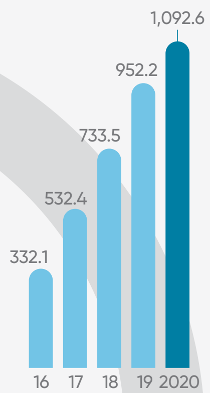
**NPAT Cash**
$m



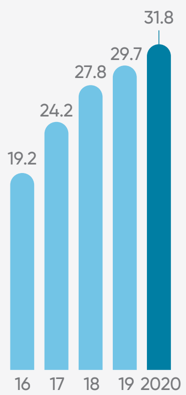
**Loan book**
$b



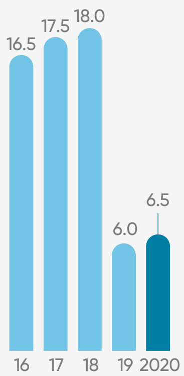
**Total Settlements**
$b



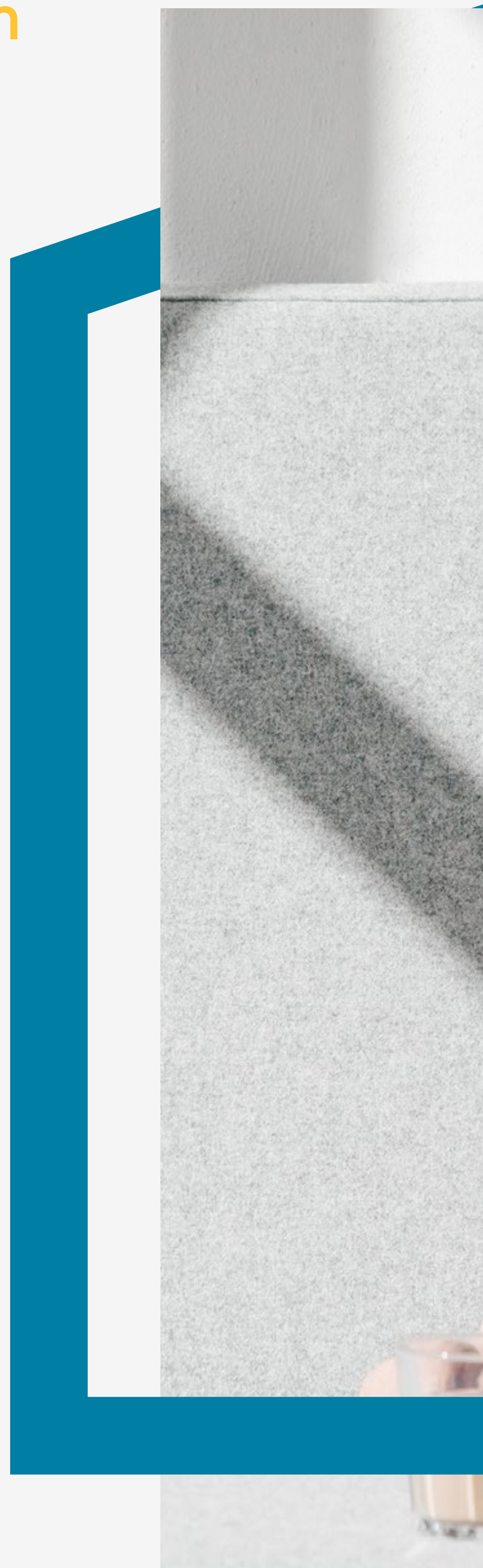
**FUA**
$m

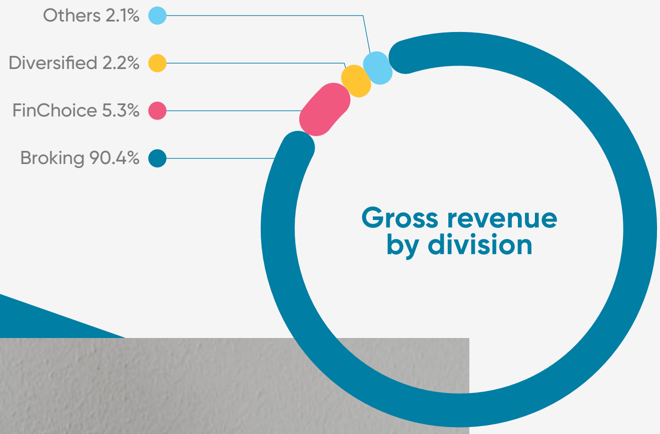


**PIF**
$m



**Total Dividends**
cents




Others 2.1%
Diversified 2.2%
FinChoice 5.3%
Broking 90.4%
Gross revenue by division

# Chairman's Report

### Challenging Year for Australians

This past year has been an extraordinary period for all Australians and Australian businesses. We saw positive momentum build in the economy and housing markets in the first half of FY 2020 following the Federal Election. However, this was short-lived with the impacts of a national bushfire crisis affecting so many Australians, in particular, our rural communities. Just as these communities started the process of recovery, the global Coronavirus (COVID-19) pandemic impact began to be felt. Significant stimulus measures have helped to support the economy, and Australia appears relatively well positioned to weather this health crisis. However, the outlook remains uncertain.

### Supporting our franchisees and customers

During COVID-19, we have focused on supporting our franchisees to ensure they provide the best support for our customers, and we will emerge from this time of uncertainty with a strong, sustainable franchise network that our customers acknowledge and respect as an important part of their communities. Our franchisees were quick to move to video-based customer interviews, embracing the use of digital signatures and directed their local marketing activities towards digital channels, whilst we negotiated straight away with our lenders to better utilise technology in the loan approval process. As a result of these changes and the focused support of our customers, loan approvals and settlements in the second half of FY 2020 both increased by 20% YOY.

Digitally enabling our operations has been a key theme of our operations this year and included the build of our big data solution within our Google cloud, projecting the business toward a single customer view for marketing, insights and analytics. The delivery of our proprietary File Manager workflow processing technology considerably streamlined and automated aspects of loan processing and client communications for our network, driving a consistent customer experience and greater efficiencies.

### Strategic Review

In the first half of FY 2020, we undertook a strategic review of Mortgage Choice to position ourselves for long-term sustainable growth.

Our internal review affirmed the positive future of the mortgage broking industry. We can continue to enhance our customer and broker experience by further digitising more elements of our value chain, whilst amplifying the personalised service our local brokers deliver. We believe that consumer demand for both choice and advice in navigating a more complex credit environment will continue.

### Operating Performance and Dividend

Despite the recent headwinds of FY 2020, the Company largely delivered on its targets and financial performance objectives, achieving cash Net Profit after Tax of $11.7m. The Company had made significant cost reduction efforts in FY 2018, which ultimately positioned us well to navigate the pressures of this period. Accordingly, the Board was not required to exercise any discretion in changes to executive remuneration.

The business has sustained its performance in spite of the challenges of 2020 through to the end of June and has demonstrated its resilience to navigate this next phase. The Board has resolved to pay a final ordinary dividend of 3.5 cents per share. This results in a total ordinary dividend payment for the year ended 30 June 2020 of 6.5 cents per share.

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

Vicki Allen
Chairman

↑20%

Loan Settlements and Approvals in the second half of FY 2020 YOY

$10.0b

Total Settlements

"We will emerge from this time of uncertainty with a strong, sustainable franchise network that our customers acknowledge and respect as an important part of their communities."

**Vicki Allen**
Chairman

# CEO Overview

## Navigating Uncertainty

The challenges of this past year have tested the resilience and resolve of all Australians and I would like to echo the Chairman's sentiments. Our franchise community has responded to the complexity this new environment has brought both to their businesses and to their customers and I am immensely proud of their response during this period.

FY 2020 has been a very busy year for Mortgage Choice as we embarked on a brand refresh, made significant technology advances for our network and our customers, strengthened our leadership team all whilst readying the business for legislative change. Our house is in order and we are well placed to grow.

Before I discuss Company performance and achievements over the past 12 months and the goals for the coming year, I'd first like to review the economic and regulatory environment the business faced in FY 2020.

## Regulatory Changes Continue

Regulatory change continued this year with Best Interests Duty and Conflicted Remuneration reform preparation. Both of these regulatory changes were outcomes from the Royal Commission and were to come into effect 1 July 2020. Due to the impacts of COVID-19, ASIC deferred the implementation of these changes by six months to 1 January 2021.

We fully embrace these regulatory changes as we believe they support the professionalism of the industry and reinforce the principles Mortgage Choice has always stood for. We pride ourselves in always putting our customers' best interests at the forefront of everything we do to help make them financially stronger.

Mortgage Choice has been developing industry-leading software enhancements to our proprietary Broker Platform to ensure we achieve full compliance of Best Interests Duty in preparation for 1 January 2021. The focus is on the efficient compliance of our franchise network and delivering best practice customer service in parallel.

Regulatory changes also have affected FinChoice and our financial adviser community.

On 1 January 2020, The Financial Adviser Standards and Ethics Authority (FASEA) implemented the Code of Ethics as a set of principles and core values to provide a powerful framework to shape and reinforce ethical conduct and encourage a deeper engagement by financial advisers with their duties to their client as well as the broader community.

In August 2019, the Government released a proposal to provide existing advisers additional time to comply with the new FASEA education requirements, however, delays in passing the Bill did not see the proposals pass until June 2020. Existing Advisers now have until 1 January 2022 to pass the FASEA exam and until 1 January 2026 to reach an educational standard equivalent to a FASEA approved degree.

We fully support these new standards as they were designed to solidify the education, training and ethical standards of licensed financial advisers in Australia.

We have begun planning for the further regulatory change which will come into effect in October 2021. The recommendations from the Royal Commission which will be implemented in late 2021 are *Reporting Information Sharing on Misconduct* (Recommendation 1.6), *Reference Checking Protocols* (Recommendation 2.7), *Reporting to ASIC* (Recommendation 2.8) and *Reporting to the Customer and Remediating* (Recommendation 2.9).

## Broker Market Share

As the bushfires and COVID-19 challenged investors and homebuyers in FY 2020, mortgage brokers' market share of the residential home loan market slipped slightly to 52.1%[1] in the March Quarter 2020 however holding steady in its sixth year at greater than 50%[1].

With over five out of ten Australian borrowers choosing the services of a broker to secure their home loan, Mortgage Choice's reach into local communities across Australia strengthens our relationship with lenders.


Mortgage Brokers' Market Share[1]

1. MFAA's Quarterly Survey of Leading Mortgage Brokers and Aggregators (June 2020).

Credit Reps
**554**

Advisers
**38**

"We are focussed on positioning the business well for our ongoing digital transformation to deliver an enhanced, seamless and engaging customer experience."

**Susan Mitchell**
Chief Executive Officer

# CEO Overview CONTINUED

### Property Market Outlook

National dwelling values recorded strong growth in FY 2020 resulting in an annual rise of 7.8% in the 12 months to June 2020. This was led by Sydney, which recorded an annual growth of 13.3%, followed by Melbourne 10.2%, Hobart 6.4%, Canberra 6.3%, Hobart 6.4%, Brisbane 4.4% and Adelaide 2.0%. Perth and Darwin were the only capital cities to record annual declines with values falling 2.5% and 1.5% respectively.

Across the regional markets, values were up 3.7% for the twelve months to June 2020.

The rebound in the second half of CY 2019 carried into 2020 until March when COVID-19 began to make an impact.

The impact of COVID-19 has not had a major impact on property values to date, but activity has slowed.

A lack of supply has worked to keep dwelling values relatively stable.

The latest CoreLogic Hedonic Home Value Index revealed that Australian dwelling values fell 0.6% in July, led by Melbourne and Sydney, which recorded declines of 1.2% and 0.9% respectively. As the impacts of the pandemic continue to put a strain on household budgets and consumer sentiment we may see further deterioration of activity in the property market.

Last year I told you that we would focus on growth in customers, brokers and advisers whilst we continue to invest in IT to take the business forward.

### More Customers

In August 2019, Mortgage Choice appointed Stephan Gervois as the new General Manager of Marketing. Upon joining the business, Stephan led a complete review and refreshed the strategic direction of the brand.

We are focused on positioning the business well for our ongoing digital transformation and endeavour to deliver an enhanced, seamless and engaging customer experience. We are re-platforming our marketing capabilities through a new website, new email marketing platform and new trigger-based marketing automation.

Over the COVID-19 period, we have seen a steady increase in the number of customer leads being generated. When the COVID-19 pandemic began to unfold, our customer communications team quickly rolled out a strategic communications plan targeting our database. We understand that in times of crisis, consumers look to experts they know and trust and we believe that this strong demand for our services can be attributed to the quality of clear, consistent and timely communication from our brokers to their clients.

A focussed, coordinated content approach across all our channels drove an increase of new and existing lead opportunities to the broker network.

### More Brokers

Following the Royal Commission and the federal election in May 2019, franchise recruitment activity started to return. We re-focussed our efforts on the growth of the network - more administrative support, more loan-writers and focus on new owners, with 14 new owners joining the network. We have also had 9 businesses transition their ownership throughout the year, again bringing new owners into the network. This has been a deliberate strategy to support the regeneration of our network; supporting long-standing existing owners who are transitioning to the next stage of their careers and recruiting new owners who are motivated to grow their franchise businesses.

In June 2020, we appointed David Zammit as the new General Manager of Distribution with a charge to grow the revenue base of the company.

### More Advisers

In November 2019, Dean Thomas was appointed as the Chief Advice Officer of Mortgage Choice Financial Planning, now known as FinChoice. Upon joining the business, Dean undertook a review of the advice market and determined the key pillars of focus to drive growth in our advice practices and deliver advice to more Australians.

The rebrand of the business was one of the pillars as we believe it is important for there to be a clear distinction to consumers between the offering of our financial advice and mortgage broking divisions.

Technology remains key to delivering cost-effective advice and we continue to make a significant investment to cater to the needs of our adviser network and their customers to make advice accessible and affordable. Over the course of the year, significant investment and effort was applied in optimising our XPLAN Platform. This focus remains as we build stronger technology-based integrations between the broking and advice businesses, strengthening the customer experience and increasing business efficiencies to set us up for future growth.

### Business Outcomes

Despite the headwinds that the year has brought us, I am pleased to say we have achieved our goals.

- We saw a return to recruitment after the Federal Election and an increase in settlements.
- We have achieved record customer lead numbers in the second half of FY 2020.
- We have restructured the business for long-term success and strengthened our leadership team.
- We remained committed to investing in technology to increase broker productivity; increase adviser productivity; integrate the digitally connected customer and establish a big data cloud platform.

Despite the challenging operating environment in FY 2020, the Company has performed well to deliver Cash Net Profit After Tax at $11.7 million.

### Business Priorities for FY 2021

Looking forward to the financial year ahead, in FY 2021 Mortgage Choice will continue to build its strategic change program to build a platform for growth and long term sustainability, focussing on:

- Growth of our revenue base through recruitment, regeneration and retention of franchise talent
- Accelerated investment in an enhanced and digitally-driven customer experience
- Delivery of systems and processes that create digitally efficient broker and adviser businesses

We are confident we will be Stronger Together in the new normal following COVID-19 as we focus on growth. We look forward to continuing to help Australians with their financial needs by delivering a range of financial choices teamed with trusted expert advice.

Susan Mitchell

Susan Mitchell
Chief Executive Officer

# Directors' Report

Your Directors present their report on the consolidated entity consisting of Mortgage Choice Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2020, hereafter referred to as "Mortgage Choice", "the Mortgage Choice Group" or "the Group".

## Directors

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

V L Allen
S J Brennan
D Chandran
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.

## Dividends

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

- A final ordinary dividend of $3.750 million (3.0 cents per fully paid share) was declared for the year ended 30 June 2019 on 21 August 2019 and paid on 15 October 2019.
- An interim ordinary dividend of $3.750 million (3.0 cents per fully paid share) was declared for the half-year ended 31 December 2019 on 19 February 2020 and paid on 17 April 2020.
- A final ordinary dividend of $4,375 million (3.5 cents per fully paid share) was declared for the year ended 30 June 2020 on 26 August 2020 to be paid on 15 October 2020.

## Corporate Governance Statement

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

## Review of Operations

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

## Operating and Financial Highlights

Mortgage Choice's IFRS result for the year was $9.4m, down 31% on the prior year. The Group's cash result was $11.7m, a fall of 16% on the prior year. Settlements for the year reached $10.0bn, an increase of 7% on FY 2019 despite the environmental challenges of devastating bushfires and the COVID-19 pandemic in the last quarter of the financial year, while the loanbook stood at $54.0bn, a fall of 0.6% over the year. The fall in profit reflects the impact of a full 12 months of the broker remuneration model introduced in August 2018 and an increase in operating expenses. Allowing for one off items in FY 2019 and FY 2020 as detailed in the Financial Review, underlying operating expenses increased by 2% year on year.

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. Strong underlying operating cash flows has helped to enable ongoing investment in IT platforms for future growth whilst maintaining dividends to shareholders.

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. With the safety of its customers, franchisees and staff as its primary concern, Mortgage Choice implemented a COVID-19 response which included the successful transition of all staff to work from home, setting up COVID-19 safe protocols for anyone attending the office and providing tools for franchisees to successfully operate in the new environment. We have also worked with our lender partners to continue to meet customers' needs where face to face meetings are not possible including the use of electronic signatures and acceptance of remote ID checks. Further discussion on to the impacts of COVID-19 are included in the Financial Review in this report.

Mortgage Choice finished the year strongly with customer enquiry and settlements up 18% in the last quarter of the financial year compared to the previous year. The business has strong cash flows and a debt free balance sheet and is well placed to continue to grow settlements in an uncertain environment.

# Directors' Report

Continued

## Operating Review

During the year Mortgage Choice undertook a refresh of it's strategic objectives. The refreshed strategic objectives are:

- Growth of our revenue base through recruitment, regeneration and retention of franchise talent,
- Accelerated investment in an enhanced and digitally-driven customer experience, and
- Delivery of systems and processes that create digitally efficient broker and adviser businesses.

These objectives are all aligned to supporting settlement and network growth through more brokers, more advisers and more customers.

### Investment in Innovative Technology

In FY 2020, Mortgage Choice delivered best in class technology that provides our brokers with the platform to operate more efficiently and achieve higher business performance outcomes.

Our key technology achievements in FY 2020 focused on improving Broker and Adviser Productivity, integration of the Digitally Connected Customer, establishment of a Big Data cloud platform and preparing for Best Interests Duty Compliance.

### Broker and Adviser Productivity

#### File Manager

Building on the success of our best in class broker origination system, we began rolling out the 'File Manager' component of the Broker Platform, built off the IBM Digital Business Automation Platform.

#### FinChoice XPLAN Enhancements

Throughout FY 2020 we have continued to invest in XPLAN and further enhanced the experience for our advice network. Concerted efforts have been applied to drive improved transfer of customer data from broker platform to XPLAN enabling more seamless and warmer handover of clients from broker to adviser.

### Digitally Connected Customer

#### MyHub

We launched the MyHub customer portal. This allows brokers to easily and securely request and securely store customer documentation and information required to complete a loan submission. File Manager and MyHub significantly automates the loan application process.

The launch of the MyHub portal has underpinned faster, more efficient fact find and document collection, creating productivity gains for brokers while strengthening our compliance culture, and improving the customer experience by helping them secure home loan approval faster.

## Big Data

Over the course of FY 2020, Mortgage Choice has built out a Big Data solution in our Google cloud. The data lake consumes all systems data across the organisation and provides a single customer view for marketing, insights and analytics. We have also started developing Artificial Intelligence and Machine learning capabilities over this data set with Google native products.

## Best Interests Duty Compliance

Broker Platform dramatically improved the productivity of our network, however it also acts as a platform to absorb the rapid changes that occur from a regulatory standpoint. The Platform already provides many of the features required for a broker to suggest the right solution to their customers and also has safeguards in place to ensure that brokers are easily able to store all the documentation and interactions required in making the brokers' assessment. These are all critical requirements to meet the forthcoming Best Interests Duty obligations.

Mortgage Choice will need to implement additional functionality to the home loan selection process and documentation in Broker Platform as part of readiness for Best Interests Duty legislation implementation on 1 January 2021. A complete development and change management program has been implemented on receipt of ASIC's final guidance on the legislation, with work underway and carrying through into FY 2021.

### Diversification & strengthening of product offering

To provide our customers with increased choice, Mortgage Choice added 3 new business partners to its product panel in FY 2020. We have also introduced our own home loan product Mortgage Choice Home Loans Ignite, powered by our lending partner Pepper Money. The broadening of our panel ensures we can offer a greater breadth of tailored solutions across mortgages, insurances, personal loans and commercial finance to better meet the evolving needs of our customers. We expect to further expand our panel across multiple products throughout FY 2021.

### Financial Planning

In December 2019, Dean Thomas was appointed Chief Advice Officer of the financial planning arm of Mortgage Choice. Dean has been appointed to drive growth in our advice business and to deliver quality, affordable advice to more Australians.

Mortgage Choice Financial Planning was rebranded to FinChoice to refine its proposition in the market of focusing on a client's entire financial circumstances, not just mortgages and asserting our key differentiator of choice.

### Brand Presence (Marketing)

In August 2019, Mortgage Choice appointed Stephan Gervois as the new General Manager, Marketing. Upon joining the business, Stephan led a complete review and refresh the strategic direction of the brand.

Following an in-depth brand and customer experience audit, an 18-month marketing plan has been developed to focus on the following four strategic pillars:

1. Revenue growth,
2. The relaunch of our brand,
3. The revitalisation of the franchise network and
4. The digital customer experience

Integrating our digital customer experience with the Broker Platform capabilities, our vision is to deliver a truly digital home loan experience.

# Directors' Report

Continued

### Corporate Communications

We undertook a fresh approach to Corporate Communications in FY 2020 after a restructure in the team at the close of FY 2019. This included expanding resourcing to create greater capacity for increased internal communications. We refined our approach to deliver more targeted content driving stronger engagement in the franchise network to increase advocacy.

Throughout COVID-19, it was imperative that timely, accurate and regular communications were provided to the franchise network and internal staff to ensure they were informed of all of the latest information pertaining to the situation and what it meant for the immediate future of their businesses.

### Distribution

Following the finalisation of the Royal Commission findings and completion of the Federal Election, a degree of certainty returned to the broking industry which in turn resulted in a reactivation of recruitment activity and the return of sales momentum.

During the course of the year, a targeted focus was applied to those franchise owners looking to transition out of their business and attracting motivated new owners to reignite those franchises and lift performance. Over the period, 9 businesses were transitioned under the regeneration strategy, while an additional 14 new franchises were recruited into the network.

As part of our growth objectives, the team launched 'Aspire', a growth and development program for our female business owner and talent pipeline. We believe we can support the 49% of loan writers who are female with the opportunities to develop skills and network with successful female franchisees to create a pipeline for future franchise ownership. We had 180 women participate in our first round of Aspire and the initiative will continue in FY 2021 by targeting opportunities to connect with female entrepreneurs looking to join the mortgage broking industry.

In June 2020 we made the appointment of David Zammit as new General Manager, Distribution. David has commenced a review of our sales operations and is establishing a strategic approach here moving forward to drive growth in performance.

### Regulation

In FY 2020, a number of regulatory changes followed the conclusion of the Royal Commission. Reforms relating to Best Interests Duty and Conflicted Remuneration reform were to apply from 1 July 2020, however, due to the impacts of COVID-19, ASIC deferred these changes by six months, and are now to be implemented by 1 January 2021.

In preparation for the new legislation and regulatory requirements, we are enhancing our approach to risk and controls. By using our technology in a more sophisticated way, we are using data to identify trends, insights and patterns, flag behaviours and proactively coach and guide our network in best practice.

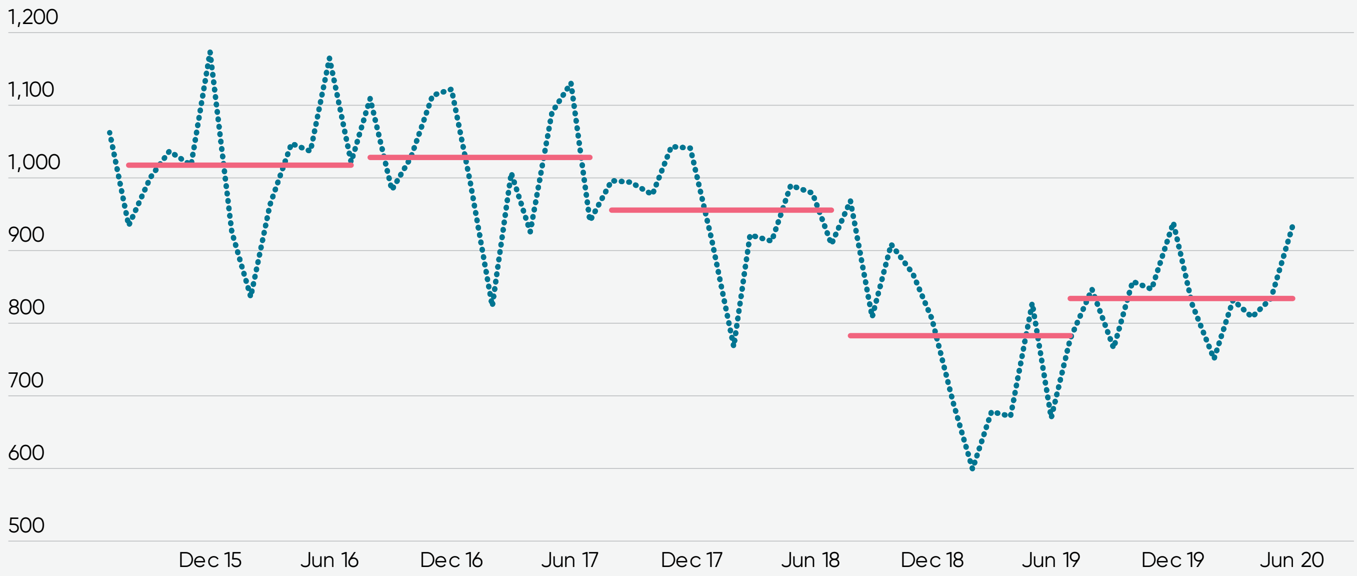
## Financial Review

Mortgage Choice's IFRS NPAT of $9.4m reflected the gradual recovery in settlements from FY 2019 with the easing of credit conditions, improvements in the property market and economic certainty following the Royal Commission and Federal Election. The year also saw an increase in expenses with $1.0m spent on a strategy review and subsequent restructuring of the business for future growth as well as additional amortisation costs associated with the introduction of the Group's new technology platforms.

Cash NPAT for the year was $11.7m, a fall of 16%, in line with expectations.

Settlements increased by 7% on FY 2019 to $10.0bn with the year ending on a strong note despite the challenges posed by the COVID-19 pandemic in the last quarter of the year. This was evidenced by the June 2020 quarter settlements being 18% up on the June 2019 quarter. The increase in settlements was driven by a combination of factors including but not limited to the improvement in market conditions and stabilisation of the broker network with recruitment activity and broker productivity increasing during the year.

SETTLEMENTS TRENDS ($M)

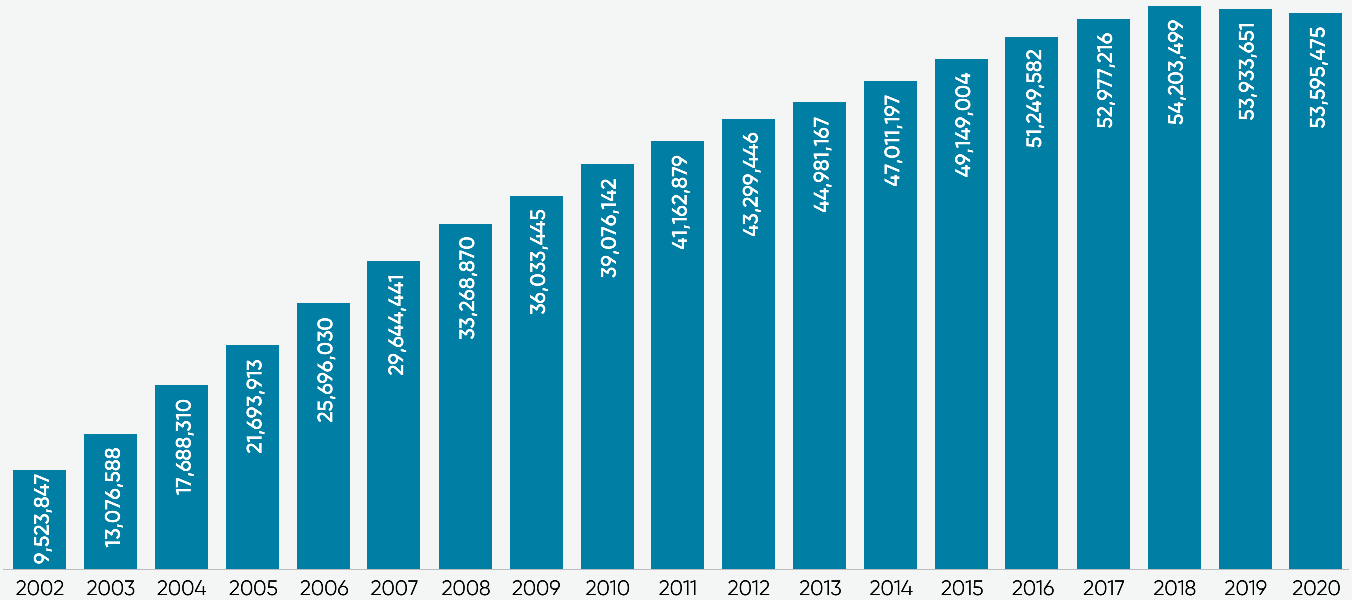


# Directors' Report

Continued

Mortgage Choice's loanbook stood at $54.0bn, a fall of 0.6% reflecting the difference between run-off and the value of new settlements added during the year. Run-off has remained steady year on year with a slight uptick in the last quarter reflecting an increase in refinance and settlement activity. Gross revenue was down 1.1%, with falls in trailing income, financial planning revenue and diversified revenue offsetting the increase in origination revenue. Gross profit also reflected this, falling by 6.9%, including the full 12 month impact of the remuneration model introduced in August 2018.

**MORTGAGE CHOICE RESIDENTIAL LOAN BOOK ($000)**




The Group's cash reserves stood at $6.1m at 30 June 2020, an improvement of $4.2m as at 30 June 2019, including the repayment of $2.5m in external borrowings during the year.

During the year, Mortgage Choice continued to invest in technology with $3.1m in capital expenditure on a number of software development projects aimed at improving the productivity of its brokers and advisers, improving the customer experience including the digital customer experience and preparing the business to comply with Best Interests Duty regulatory requirements.

The Group's operating expenses increased by 10% in FY 2020 compared to FY 2019. This reflects increases in IT costs of $1.2m and one-off restructure costs of $1.0m. Further, no staff bonuses were paid in FY 2019. Allowing for these one off items in FY 2019 and FY 2020, underlying operating expenses increased by 2% year on year.

As in prior years, an actuarial review was conducted on the residential loanbook. The review found the run-off rate of the loanbook was slower than the assumptions used in the valuation at 30 June 2019. Management determined that this, along with the future economic outlook, required a positive balance sheet adjustment of $1.6m at year end to bring the valuation in line with the actual loanbook position and assumed future run-off profile. The underlying operating revenue before adjustment, is up 2.4% year on year. The table below shows the movement in the underlying statutory results year on year.

**UNDERLYING STATUTORY RESULTS**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Operating Revenue | | |
| Underlying operating revenue | 167,575 | 163,711 |
| Adjustment to NPV receivable (contract asset) for changes in run-off and other assumptions | 7,804 | 13,644 |
| Total operating revenue | 175,379 | 177,355 |
| Profit after tax | | |
| Underlying result after tax | 8,558 | 11,058 |
| Adjustment to net NPV receivable (contract asset) for changes in run-off and other assumptions | 1,578 | 2,666 |
| One-off restructure costs after tax | (711) | – |
| Total profit after tax | 9,425 | 13,724 |

# Directors' Report

Continued

The Board's confidence in the ongoing strength of the business despite the economic uncertainties posed by the COVID-19 pandemic are supported by the following factors:

- Mortgage Choice franchises remained open for business throughout the COVID-19 shutdown period and were able to continue to service customers via non face to face measures.
- Mortgage Choice moved to a remote working environment across all its corporate sites with minimal disruption to activity and services.
- Throughout the year ended 30 June 2020, settlement activity remained strong and up on the prior year.
- The cashflows generated by the trail book are expected to continue in line with historical run off trends. In the event that new settlement activity slowed materially, Mortgage Choice would still receive trail income on the existing customer loan portfolio, the run-off of which would also be expected to slow corresponding to the market. This means that trail income would be received for a longer period by the Group. This upside over time would be offset by any increased arrears on the portfolio which generally triggers the cessation of payment of trailing income.
- Lenders continue to pay trail on loans where customers have entered into repayment arrangements as a result of COVID-19. As Mortgage Choice is not a lender, it has no direct exposure to bad debts for customers defaulting or going into arrears and the impact of this is limited to the cessation of trail income on these loans.
- At the date of signing, Mortgage Choice has not accessed JobKeeper assistance although some franchisees may be utilising government assistance packages depending on their individual business circumstances.
- Settlement pipeline and customer enquiry has maintained the strong levels seen in the fourth quarter FY 2020 going into the first quarter of FY 2021.

Mortgage Choice has contingency plans in place to reduce operating expenditure should there be a sustained reduction in settlement activity.

## Focus areas for FY 2021

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

### Attracting more brokers and advisers

We will build on the strong foundations established in FY 2020 to strengthen our activities attracting new talent to the organisation in both broking and advice practices. In FY 2020, a significant disruption has been seen in employment for many Australians in both small businesses and the financial services industry. We believe this will deliver a new wave of prospects seeking a trusted brand and new opportunity in FY 2021.

Our focus on regeneration will continue in broking whilst we also look to drive increased recruitment of support functions and loan writers within existing businesses to bolster capacity for growth and higher business performance.

FinChoice will continue to execute under the strategy established by the business in FY 2020, with significant focus on driving productivity enhancements through technology into existing franchise businesses to enable improved profitability.

### Attracting customers

Mortgage Choice will continue to focus on lead management in the new year with the integration of a new marketing automation platform. This platform is designed to enhance ongoing engagement with consumers throughout the customer lifecycle.

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

### Best Interests Duty Compliant

We will enhance our systems and technology to ensure our entire business and franchise network is equipped with the tools necessary to be fully Best Interests Duty compliant prior to 1 January 2021.

### Structuring the business for success

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

### Maintaining our investment in IT

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

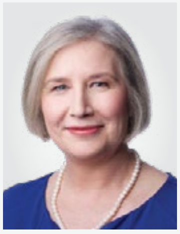
## Environmental regulation

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

# Directors' Report

Continued

## Information on Directors



### Vicki Allen

BBus, MBA, FAICD

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

Vicki was appointed the Independent Non-Executive Chairman in July 2017. Vicki has over thirty years of senior executive and board experience across the financial services and property sectors. During her executive career she held various senior roles at The Trust Company, National Australia Bank, MLC and Lend Lease Corporation. She has held a number of non-executive director roles in recent years and is currently a non-executive director of Bennelong Funds Management Limited, Bennelong Funds Management Group Pty Ltd and Chairman of the BT Funds board. She is a member of the Audit and Risk Committee of the NSW Ombudsman and Chairman of the Risk and Compliance Committee of New Forest Pty Ltd. Vicki is a Fellow of the Australian Institute of Company Directors and a Trustee Fellow of The Association of Superannuation Funds of Australia. Age 58.

### Sarah Brennan

BA, GMD, FFPA, GAICD

- Independent Non-Executive Director
- Member of remuneration committee and Chairman of the FinChoice investment committee
- Director since 21 March 2018

Sarah Brennan is an entrepreneur with over 25 years' experience in the financial services industry at an Executive, Consultant and at Board level. She has operated at CEO level in large corporations as well as founding and running innovative SME businesses. Sarah founded Comparator, the leading provider of benchmarking to the Australian financial services market (including Mortgage Brokers and Lenders), which she then sold to CoreLogic. As an executive she held senior roles at Citibank, MLC, Deutsche Bank and has provided consulting services across financial services and wealth management to both domestic and international clients. Sarah brings experience in the areas of financial planning and wealth management, mortgage broking and lending and an extensive background in strategy, innovation, professionalism, risk management and regulatory and corporate governance. Age 53.

### Dharmendra Chandran

MCom, LLB, BCom

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

Dharma is a highly respected corporate strategy and human resources executive with a track record in business transformation and cultural change. Dharma developed a deep understanding of the financial services sector through his experience as a Partner in various consulting firms and five years working at Westpac in senior executive roles. He has held various Board roles for private companies and government-related organisations, more recently, as a Non-Executive Director and Chair of the Board People Committee at 7-Eleven Australia. Age 56.

### Sean Clancy

Dip Mkt, FAICD

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

With a sales and marketing background across many industries including banking, fast moving consumer goods, liquor, pharmacy, consumer electronics, telecommunications and hardware, Sean brings a diverse range of knowledge and expertise to the Mortgage Choice Board. He is also a Director and Chief Executive Officer of Transfusion Ltd, Chairman of Metropolis Inc., Campaign Express, Non-Executive Director of Gowing Brothers and of Whitecoat and Ambassador to Business Events Sydney. Age 60.

### Andrew Gale

BA (actuarial major), MBA, FAICD, FIAA

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

Andrew Gale is a qualified actuary with extensive knowledge of the financial services sector. He has had a deep involvement in financial services regulatory issues in a range of capacities and brings expertise in general management, M&A, corporate strategy, marketing, distribution and risk management. He has over 35 years' experience in the industry, including roles as Executive Director with Chase Corporate Advisory, CEO and Managing Director for Count Financial Ltd, Managing Partner for Deloitte Actuaries and Consultants, and various senior executive roles at MLC and AMP. Andrew has over 25 years' experience as a board director. He is a non-executive director (NED) of the NULIS Nominees (Aust) Limited (trustee for MLC's superannuation entities), Chairman of the NFP entity The Australian Society for Progress & Wellbeing and NED for the NAB Advice & Licences Board (ceased 01.08.20). He was a NED of the SMSF Association Limited for 6 years to June 2018, and its Chairman for 2 years. Andrew is a past President of the Institute of Actuaries of Australia. Age 63.

### Peter Higgins

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

Peter is co-founder of Mortgage Choice. He is also Executive Chairman of Technology Company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com, a Director of Argosy Agricultural Group Pty Ltd and a Member of the Hawkesbury Valley Economic Advisory Committee. Peter is also an Ambassador of the International Federation of Polo. Having been successfully self-employed for over 30 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 60.

### Rodney Higgins

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

Rodney is co-founder of Mortgage Choice. With a background in residential and commercial property, sales and leasing, he has been a Director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 65.

# Directors' Report

Continued

### Directors' interests

The table below sets out the Directors' interests at 30 June 2020:

| Director | Particulars of Directors' interests in shares |
|---|---|
| V L Allen | 60,000 ordinary shares |
| S J Brennan | 14,650 ordinary shares |
| D Chandran | 0 ordinary shares |
| S J Clancy | 120,000 ordinary shares |
| A C Gale | 100,000 ordinary shares |
| P G Higgins | 254,253 ordinary shares |
| R G Higgins | 15,385,212 ordinary shares |

### Company Secretary

The Company Secretary is Mr Scott Stierli, B.Bus, LLB.

### Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2020, and the numbers of meetings attended by each Director were:

| | | | Meetings of committees | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Full meetings of Directors | | Audit | | Nomination | | Remuneration | |
| | A | B | A | B | A | B | A | B |
| V L Allen | 11 | 11 | * | * | 3 | 3 | 5 | 5 |
| S J Brennan | 11 | 11 | * | * | * | * | 5 | 5 |
| D Chandran | 11 | 11 | 4 | 4 | * | * | * | * |
| S J Clancy | 11 | 11 | 4 | 4 | * | * | 5 | 5 |
| A C Gale | 11 | 11 | 4 | 4 | 3 | 3 | * | * |
| P G Higgins | 9 | 11 | 4 | 4 | * | * | * | * |
| R G Higgins | 9 | 11 | * | * | 2 | 3 | 4 | 5 |

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

# Directors' Report

Continued

## Remuneration report

This Remuneration Report sets out the FY 2020 remuneration information for the Company's Non-executive Directors, Chief Executive Officer ("CEO") and other key management personnel (collectively "KMP") as defined in the Glossary at the end of this report.

The report contains the following sections:

a. Chairman's introduction
b. KMP included in this report
c. Remuneration governance
d. Executive remuneration policy and framework
e. Executive remuneration for FY 2020
f. Relationship between remuneration and Mortgage Choice Limited's performance
g. Non-executive Director remuneration
h. Statutory disclosures
i. Glossary

### a. Chairman's introduction

Dear Shareholders

On behalf of the Board, I am pleased to present the FY 2020 Remuneration Report to you.

The Board is committed to a transparent remuneration approach linking company strategy and individual excellent performance. This approach seeks to balance the long-term interests of shareholders with the need to attract and retain talented professionals who can deliver on the company's goals and business objectives.

The headwinds created by COVID-19 pandemic did not materially impact on the FY 2020 results, however, the Board and management have undertaken detailed sensitivity modelling of material changes in trading conditions. There are contingency plans in place in relation to staff remuneration which will be enacted should there be a material deterioration in trading conditions in the year ahead.

This year, the cash profit target gateway set by the Board for FY 2020 was achieved and KMP STI payments were awarded based on the achievement of individual performance targets. This was an increase on the prior year when the cash profit target gateway set by the Board was not achieved and accordingly for FY 2019, there were no executive KMP STI payments.

The performance hurdles for the FY 2017 Long Term Incentive were not met and, as a result, 100% of the FY 2017 LTI lapsed.

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

Sean Clancy
Chair of the Remuneration Committee

### b. KMP included in this report

**TABLE A: KMP DURING FY 2020**

| Name | Position |
|---|---|
| **Non-executive Directors** | |
| Vicki L Allen | Non-Executive Chairman |
| Sarah J Brennan | Non-Executive Director |
| Dharmendra Chandran | Non-Executive Director |
| Sean J Clancy | Non-Executive Director |
| Andrew C Gale | Non-Executive Director |
| Peter G Higgins | Non-Executive Director |
| Rodney G Higgins | Non-Executive Director |
| **Executive KMP** | |
| Susan R Mitchell | Chief Executive Officer |
| Ian J Parkes | Chief Financial Officer |
| David C Zammit | General Manager – Distribution (from 1 June 2020) |
| Stephan Gervois | General Manager – Group Marketing (from 22 August 2019) |
| Emma A Dupont-Brown | General Manager – Product and Corporate Communications |
| Dean M Thomas | Chief Advice Officer (from 7 November 2019) |
| Marie J Pitton | General Manager – Human Resources |
| Vincent C ten Krooden | General Manager – Technology |
| **Former Executive KMP** | |
| Neill C Rose-Innes | General Manager – Distribution (from 1 July 2019 to 28 May 2020) |
| Melissa J McCarney | General Manager – Group Marketing (from 1 July 2019 to 31 August 2019) |
| Tania J Milnes | General Manager – Financial Planning (from 1 July 2019 to 6 December 2019) |

# Directors' Report

Continued

### c. Remuneration governance

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

**Board**

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

Oversee & delegate

Recommend & inform

**Remuneration Committee**

Holds primary responsibility for remuneration governance.

Makes recommendations to the Board on:

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

Seeks advice from independent remuneration consultants.

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

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

Engage

Advise

**Remuneration Consultants**

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

No remuneration consultants were used and no remuneration recommendations were received in FY 2020.

### d. Executive remuneration policy and framework

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

**REMUNERATION POLICY**

Aim to ensure that remuneration practices are:

- Fair and reasonable, enabling the Company to attract and retain key skills and experience;
- Aligned to the Company's strategic and business objectives and the creation of shareholder value;
- Transparent; and
- Acceptable to shareholders.

**FIXED**

**Fixed Remuneration**

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

**PERFORMANCE BASED**

**Short term incentive ("STI")**

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

**Long term incentive ("LTI")**

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

**TOTAL REMUNERATION = FIXED REMUNERATION + STI + LTI**

# Directors' Report

Continued

### CEO Remuneration

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

- Base Salary: $561,000
- Maximum STI: $448,800 (50% of Base Salary at target to a maximum STI of 80% of Base Salary at stretch performance)
- Maximum LTI: $280,500
- Maximum Total Remuneration: $1,290,300 (plus Superannuation in accordance with the superannuation guarantee legislation)

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

During the year a one off grant of performance rights were granted to the CEO. The issue of this special one off grant of 368,304 performance rights was in recognition of ensuring continuity of leadership over a period of substantial organisational and regulatory change. The rights vest in two equal tranches in September 2021 and September 2022 are subject to continued service.

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

**TABLE B: CEO REMUNERATION MIX**

| | Fixed | Performance Based | |
|---|---|---|---|
| Position | Base remuneration [1] | Maximum STI opportunity | Maximum LTI opportunity |
| CEO | 45% | 34% | 21% |

1. Includes superannuation

### e) Executive remuneration for FY 2020

#### Fixed remuneration

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

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

#### Short-term incentives

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

**TABLE C: SUMMARY OF FY 2020 STI ARRANGEMENTS**

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

# Directors' Report

Continued

**TABLE C: SUMMARY OF FY 2020 STI ARRANGEMENTS continued**

**What is the performance period?**

The performance period is 1 year and aligns with the financial year. For FY 2020, the performance period was 1 July 2019 – 30 June 2020.

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

STI awards are paid to participants where:
- the executive has been continuously employed until the end of the relevant financial year;
- the executive has satisfied his or her individual KPIs to at least a minimum standard;
- the executive has met the Conduct Gateway; and
- the Company has achieved the NPAT gateway.

**How does the STI Pool Group Modifier work?**

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

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

**What are the performance conditions for the CEO?**

The CEO was assessed against the following three areas of strategic focus in support of the Group's business objectives for FY 2020 to drive profitability for the benefit of our franchise network and shareholders:
- Strategic Priorities;
- Recruitment/Distribution Growth; and
- Operational Efficiencies.

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

| Scorecard Category | Weighting | Measurement | Achievement |
|---|---|---|---|
| Cash NPAT | Gateway | Cash NPAT target as set by board | ✓ |
| Strategic priorities | 25% | Identify and implement strategic revenue opportunities | ✓ |
| | 25% | Identify and implement strategic opportunities across marketing communications, technology and operations | ✓ |
| Recruitment / Distribution Growth | 20% | Achievement of growth targets for new franchisees, loan writers and advisers | ✓ |
| | 10% | Achievement of settlement targets | ✓ |
| Operational efficiencies | 20% | Identify and implement efficiency opportunities | ✓ |

**Key: Percentage of achievement against targets set:**

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

# Directors' Report

Continued

**TABLE C: SUMMARY OF FY 2020 STI ARRANGEMENTS continued**

### What are the performance conditions for other executive KMP?

The executive KMP were assessed against the following three areas of strategic focus in support of the Group's business objectives for FY 2020 to drive profitability for the benefit of our franchise network and shareholders:

- Strategic Priorities;
- Recruitment/Distribution Growth; and
- Operational Efficiencies.

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

| Scorecard Category | Weighting | Measurement | Achievement |
|---|---|---|---|
| Cash NPAT | Gateway | Cash NPAT target as set by board | ✓ |
| Strategic priorities | 15–40% | Identify and implement strategic revenue opportunities | ✓ |
| | 15–40% | Identify and implement strategic opportunities across marketing communications, technology and operations | ✓ |
| Recruitment / Distribution Growth | 10–30% | Achievement of growth targets for new franchisees, loan writers and advisers | ✓ |
| | 10–30% | Achievement of settlement targets | ✓ |
| Operational efficiencies | 20–40% | Identify and implement efficiency opportunities | ✓ |

**Key: Percentage of achievement against targets set:**

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

### How is performance assessed?

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

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

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

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

### How is the STI pool calculated?

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

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

# Directors' Report

Continued

| TABLE C: SUMMARY OF FY 2020 STI ARRANGEMENTS continued | |
|---|---|
| How is reward delivered under the STI Plan? | **CEO:** If an STI award is made, the STI award is delivered 50% in cash and 50% in performance rights. Vesting of performance rights is deferred for up to two years. Further details regarding the deferred component of the CEO's STI award are set out below.<br><br>**Other executive KMP:** If an STI award is made, the STI outcome is paid 100% in cash.<br><br>STI cash payments (if any) are made following board approval of the Annual Report. |
| Is there discretion to adjust STI awards? | Individual STI awards are not formulaic and the Board may adjust awards up or down where circumstances warrant e.g. positive franchisee outcomes and engagement or where the risk tolerance is breached. |
| **DEFERRED STI ARRANGEMENTS FOR THE CEO** | |
| How do the deferred STI arrangements work? | If an STI award is made to the CEO, 50% of the award is deferred in the form of performance rights granted under the Company's Share Rights Plan.<br><br>The number of performance rights granted is determined by dividing 50% of any STI awarded to the CEO by the volume weighted average price (VWAP) of shares in the Company traded on the ASX over the 5 trading days prior to the grant date. The performance rights will be granted in September 2020.<br><br>Performance rights are offered at no cost to the CEO.<br><br>Subject to the vesting conditions being met (see below), the CEO will be allocated one share for every performance right that vests, plus the number of shares that would have resulted from dividend reinvestment during the vesting period. Shares may be sourced on-market, from a new issue of shares or from shares held by the trustee of the Company's employee share plan trust. In certain circumstances the Board has the discretion to pay a cash equivalent amount in lieu of an allocation of shares. |
| What are the vesting conditions applicable to the STI performance rights? | Performance rights are subject to both a continuous service condition and clawback provisions. No other performance conditions are applicable on the basis that challenging performance conditions relating to the STI award were met before any performance rights were granted.<br><br>Vesting of performance rights occurs as follows:<br>– 50% 12 months after the end of the STI performance period; and<br>– 50% 2 years after the end of the STI performance period. |
| What rights are attached to the performance rights? | Performance rights do not carry any voting or dividend rights, however shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares. |
| Does the Board have discretion to clawback the award? | Performance rights may be forfeited if a material financial misstatement is uncovered relating to the year of the original STI award.<br><br>If the Board determines that the CEO has acted fraudulently or dishonestly; has breached her obligations to the Group; or is knowingly involved in a material misstatement of financial statements; any shares to which she may have become entitled at the end of the performance period, and any rights held by the CEO under the Performance Rights Plan are forfeited. |
| What happens if the CEO ceases employment? | The CEO will forfeit unvested performance rights on cessation of employment with the Company unless cessation results from death, total and permanent disability, retirement or redundancy as determined by the Board in its absolute discretion. In these circumstances the Board may, in its discretion, determine the treatment of any unvested performance rights. |
| What restrictions apply? | The CEO is prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, all shares allocated on vesting can only be dealt with in accordance with the Company's Share Trading Policy. |

# Directors' Report

Continued

## Long-term incentives

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

### TABLE D: SUMMARY OF FY 2020 LTI ARRANGEMENTS

| | |
|---|---|
| What is the LTI Plan? | The LTI plan awards executives for achieving specified performance conditions which underpin sustainable long-term growth.<br><br>The Company believes that granting performance based equity to its executives under the LTI plan is an effective way of aligning the interests of executives with shareholders. |
| Who can participate? | The CEO and other executive KMP are eligible to participate in the LTI plan. Subject to the Board's discretion, grants are made annually to executives. |
| What is the maximum opportunity for executive KMP? | The maximum LTI opportunity is:<br><br>**CEO** – 50% of base salary face value at the grant date.<br><br>**Other executive KMP** – between 20% and 30% of base salary face value at the grant date. |
| How is reward delivered under the LTI Plan? | LTI awards are delivered in the form of performance rights granted under the Company's Share Rights Plan.<br><br>The number of performance rights granted to an executive is determined by dividing the executive's maximum LTI opportunity by the volume weighted average price of shares in the Company traded on the ASX over the 5 trading days prior to the grant date.<br><br>Shares allocated on the vesting of performance rights may be sourced on-market, from a new issue of shares or from shares held by the trustee of the Company's employee share plan trust.<br><br>The number of performance rights that will vest will be determined by the % vesting outcome applied to each tranche as detailed below. Subject to these vesting conditions being met, executives will be allocated one share for every performance right that vests, plus the number of shares that would have resulted from dividend reinvestment during the vesting period.<br><br>Performance rights are offered at no cost to the executives as they form part of remuneration. |
| What is the performance period? | Performance is measured over a 3 year performance period. Following testing, vesting of performance rights (if any) occurs in September of each year. |
| What are the vesting conditions for an LTI award? | In order for an LTI award to vest:<br>– the executive must be continuously employed by the Group until the vesting date (unless service ends due to death, disability, redundancy or other exceptional circumstances); and<br>– the performance conditions must be met (see below). |

# Directors' Report

Continued

**TABLE D: SUMMARY OF FY 2020 LTI ARRANGEMENTS continued**

| | |
|---|---|
| What are the performance conditions? | Performance rights are divided into two tranches designed to align to longer term shareholder value and return:<br>– 40% of the performance rights are subject to a relative TSR performance hurdle (the "TSR component"); and<br>– 60% of the performance rights are subject to a performance hurdle based on cash earnings per share ("EPS") growth on a compound annual growth basis with target performance consistent with the Company's strategic plan (the "EPS Component").<br><br>Further details about each performance hurdle are set out below.<br><br>**Relative TSR hurdle**<br>TSR is the percentage increase in the Company's share price plus reinvested dividends, expressed as a percentage of the initial investment, and reflects the increase in value delivered to shareholders over the performance period. The relative TSR comparison group is comprised of companies within the ASX Financials sector with a market capitalisation between $40 million and $2 billion as at 31 August 2019, excluding illiquid stocks. The performance period is 1 September 2019 – 31 August 2022. Vesting (if any) will occur in September 2022.<br><br>The specific Comparator Group for the FY 2020 LTI award is detailed in the Glossary at the end of this Remuneration Report.<br><br>The following vesting schedule shows the proportion of the TSR component that will vest for various performance levels. |

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

**Cash EPS growth hurdle**

Cash EPS growth is based on cash profits as presented to the market and stated in the notes of the Company's audited statutory accounts and the average number of ordinary shares on issue during the performance period. Growth is measured using the compound annual growth rate (CAGR). The Performance Period is 1 July 2019 to 30 June 2022 with the budget approved by the Board for the financial year ended 30 June 2020 to be used as the base. Vesting (if any) will occur in September 2022.

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

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

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

| | |
|---|---|
| What happens if an executive ceases employment? | Executives will forfeit unvested performance rights on cessation of employment with the Company unless the cessation results from death, redundancy, disablement, retirement or other special circumstances, in which case, unvested performance rights may vest at the Board's discretion. |

# Directors' Report

Continued

| TABLE D: SUMMARY OF FY 2020 LTI ARRANGEMENTS continued | |
|---|---|
| What restrictions apply? | Executives are prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, on vesting allocated shares can only be dealt with in accordance with the Company's Share Trading Policy. |
| Is there discretion to adjust awards? | As per the Performance Rights Rules, the Board has absolute and unfettered discretion in exercising any power or discretion concerning the Share Rights Plan.<br><br>If the Board determines that a participant has acted fraudulently or dishonestly; has breached his or her obligations to the Group; or is knowingly involved in a material misstatement of financial statements; any shares to which the participant may have become entitled at the end of the performance period, and any rights held by the participant under the Performance Rights Plan are forfeited by the participant. |
| What happens if there is a change in control? | As per the Performance Rights Rules, the Board has absolute and unfettered discretion in exercising its power to either lapse or vest some or all unvested performance rights as appropriate to the context of the event. |
| FY 2020– One off grant. | During the year a one off grant of performance rights were made to select Executive KMP.<br><br>The number of performance rights issue represented 75% of the individual KMP's base salary divided by the volume weighted average price of shares in the Company traded on the ASX over the 5 trading days prior to the grant date. The issue of this special one off grant of performance rights was in recognition of ensuring continuity of leadership over a period of substantial organisational and regulatory change. The rights vest in two equal tranches in September 2021 and September 2022 and are only subject to continued service. |

### f. Relationship between remuneration and Mortgage Choice Limited's performance

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

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

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

#### Tranche 1: EPS Component

LTI grants made under the Performance Share Plan (PSP) from FY 2014 to FY 2017 and the Performance Rights Plan (PRP) since FY 2018 have been subject to cash EPS growth hurdle. The following table shows the Company's cash EPS results in FY 2020 and the previous four financial years:

**TABLE E: CASH EPS FOR FY 2016 – FY 2020**

| Financial year | Cash EPS (cents per share) |
|---|---|
| 2016 | 16.5 |
| 2017 | 18.1 |
| 2018 | 18.7 |
| 2019 | 11.2 |
| 2020 | 9.4 |

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

# Directors' Report

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### Tranche 2: TSR Component

LTI grants made under the PSP from FY 2014 to FY 2017 and the PRP since FY 2018 have also been subject to a relative TSR performance hurdle which compares the Company's TSR against the TSRs of comparator groups of companies. TSR is the percentage increase in the Company's share price plus reinvested dividends and reflects the increase in value delivered to shareholders over the period. The following table shows the Company's TSR expressed as a percentage of the opening share price for each period. The table also shows the opening and closing share price and dividends paid in FY 2020 and the previous four financial years:

**TABLE F: SHARE PRICE MOVEMENTS, DIVIDENDS AND TSR FOR FY 2016 – FY 2020**

| Financial year | Opening share price $ | Closing share price $ | Dividends paid during year (cents) | TSR |
|---|---|---|---|---|
| 2016 | 2.30 | 1.95 | 16.0 | -8% |
| 2017 | 1.95 | 2.15 | 17.0 | 19% |
| 2018 | 2.15 | 1.42 | 18.0 | -26% |
| 2019 | 1.42 | 1.09 | 12.0 | -15% |
| 2020 | 1.09 | 0.65 | 6.0 | -35% |

The figure below illustrates and compares the Company's TSR performance with the ASX 200 index return performance for the five-year period to 30 June 2020.

**MORTGAGE CHOICE TSR COMPARED TO S&P/ASX 200 INDEX TSR**


Source: Guerdon Associates

## g. Non-executive Director remuneration

### Remuneration Policy

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

- the level of fees paid to Non-executive Directors of other similar Australian companies;
- the size and complexity of the Company; and
- the role and responsibilities of Directors.

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

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

# Directors' Report

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### Fee levels and fee pool

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

The following table shows the annual fees payable to the Chairman and Non-executive Directors as at 30 June 2020:

**TABLE G: NON-EXECUTIVE DIRECTOR FEES**

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

The Board reviews fees paid to Non-executive Directors periodically. There were no changes to the level of Directors fees in FY 2020.

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

## h. Statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) for the 2019 and 2020 financial years for KMP and has been prepared in accordance with the Australian Accounting Standards.

**TABLE H: STATUTORY REMUNERATION TABLE**

| | Short-term benefits | | | | Post-employment benefits | Long-term benefits | | Share-based payments | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | STI $ | Employee entitlements $ | Non-monetary benefits $ | Superannuation $ | Long Service Leave $ | Termination benefits $ | Deferred STI and other $ | Performance Shares & Rights $ | Total $ |
| **Non-Executive Directors** | | | | | | | | | | |
| **V L Allen, Chairman** | | | | | | | | | | |
| FY 2020 | 145,000 | – | – | – | 13,775 | – | – | – | – | 158,775 |
| FY 2019 | 145,000 | – | – | – | 13,775 | – | – | – | – | 158,775 |
| **S J Brennan** [1] | | | | | | | | | | |
| FY 2020 | 115,000 | – | – | – | 10,925 | – | – | – | – | 125,925 |
| FY 2019 | 115,000 | – | – | – | 10,925 | – | – | – | – | 125,925 |
| **D Chandran** [2] | | | | | | | | | | |
| FY 2020 | 96,525 | – | – | – | 7,500 | – | – | – | – | 104,025 |
| FY 2019 | 34,224 | – | – | – | 3,251 | – | – | – | – | 37,475 |
| **S J Clancy** [3] | | | | | | | | | | |
| FY 2020 | 105,000 | – | – | – | 9,975 | – | – | – | – | 114,975 |
| FY 2019 | 105,000 | – | – | – | 9,975 | – | – | – | – | 114,975 |
| **A C Gale** [4] | | | | | | | | | | |
| FY 2020 | 114,975 | – | – | – | – | – | – | – | – | 114,975 |
| FY 2019 | 113,150 | – | – | – | – | – | – | – | – | 113,150 |
| **P G Higgins** | | | | | | | | | | |
| FY 2020 | 95,000 | – | – | – | 9,025 | – | – | – | – | 104,025 |
| FY 2019 | 95,000 | – | – | – | 9,025 | – | – | – | – | 104,025 |
| **R G Higgins** | | | | | | | | | | |
| FY 2020 | 95,000 | – | – | – | 9,025 | – | – | – | – | 104,025 |
| FY 2019 | 95,000 | – | – | – | 9,025 | – | – | – | – | 104,025 |

# Directors' Report

Continued

**TABLE H: STATUTORY REMUNERATION TABLE continued**

| Name | Short-term benefits | | | | Post-employment benefits | Long-term benefits | | Share-based payments | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cash salary and fees $ | STI $ | Employee entitlements $ | Non-monetary benefits $ | Superannuation $ | Long Service Leave $ | Termination benefits $ | Deferred STI and other $ | Performance Shares & Rights $ | Total $ |
| **Other key management personnel** | | | | | | | | | | |
| S R Mitchell[5] | | | | | | | | | | |
| FY 2020 | 546,954 | 100,176 | 13,064 | 2,953 | 21,003 | 16,313 | – | 78,212 | 256,899 | 1,035,574 |
| FY 2019 | 550,000 | – | – | 4,928 | 20,531 | 15,615 | – | 99,658 | 62,355 | 753,087 |
| I J Parkes | | | | | | | | | | |
| FY 2020 | 328,250 | 112,755 | 14,259 | 2,953 | 21,003 | 923 | – | – | 111,465 | 591,608 |
| FY 2019 | 220,417 | – | 8,167 | 2,091 | 15,399 | – | – | – | 14,029 | 260,103 |
| D C Zammit *(from 1 June 2020 to 30 June 2020)* | | | | | | | | | | |
| FY 2020 | 30,417 | – | 2,231 | 749 | 2,890 | – | – | – | – | 36,287 |
| S Gervois *(from 22 August 2019 to 30 June 2020)* | | | | | | | | | | |
| FY 2020 | 193,436 | 58,451 | 14,287 | – | 18,090 | – | – | – | 19,636 | 303,900 |
| E A Dupont-Brown | | | | | | | | | | |
| FY 2020 | 242,000 | 71,582 | 5,009 | 2,953 | 21,003 | 4,217 | – | – | 83,688 | 430,452 |
| FY 2019 | 228,426 | – | 3,414 | 4,907 | 20,531 | 2,290 | – | – | 19,207 | 278,775 |
| D M Thomas *(from 7 November 2019 to 30 June 2020)* | | | | | | | | | | |
| FY 2020 | 227,051 | 41,836 | 7,985 | – | 14,002 | – | – | – | 20,675 | 311,549 |
| M J Pitton | | | | | | | | | | |
| FY 2020 | 173,623 | 31,950 | 2,038 | 4,564 | 16,494 | 3,507 | – | – | 22,161 | 254,337 |
| FY 2019 | 177,794 | – | 5,242 | 4,426 | 19,002 | 3,204 | – | – | 12,667 | 222,335 |
| V C ten Krooden | | | | | | | | | | |
| FY 2020 | 220,000 | 77,319 | 8,962 | – | 20,900 | 5,314 | – | – | 68,844 | 401,339 |
| FY 2019 | 195,000 | – | 4,542 | – | 20,531 | 3,183 | – | – | 5,611 | 228,867 |
| N C Rose-Innes *(from 1 July 2019 to 28 May 2020)* | | | | | | | | | | |
| FY 2020 | 285,574 | – | (24,428) | 3,034 | 19,252 | (71,991) | 201,614 | – | (25,307) | 387,748 |
| FY 2019 | 337,346 | – | (16,566) | 4,928 | 20,531 | 5,959 | – | – | 35,656 | 387,854 |
| T J Milnes *(from 1 July 2019 to 6 December 2019)* | | | | | | | | | | |
| FY 2020 | 95,592 | – | (6,871) | – | 11,703 | (44,553) | 112,501 | – | (14,061) | 154,311 |
| FY 2019 | 227,154 | – | 254 | – | 20,531 | (5,550) | – | – | 19,330 | 261,719 |
| M J McCarney *(from 1 July 2019 to 31 August 2019)* | | | | | | | | | | |
| FY 2020 | 51,442 | – | (7,435) | 1,150 | 3,500 | (16,825) | – | – | (40,061) | (8,229) |
| FY 2019 | 260,991 | – | 2,353 | 4,928 | 20,531 | 5,473 | – | – | 27,026 | 321,302 |
| Totals | | | | | | | | | | |
| **FY 2020** | **3,160,839** | **494,069** | **29,101** | **18,356** | **230,065** | **(103,095)** | **314,115** | **78,212** | **503,939** | **4,725,601** |
| **FY 2019** | **2,899,502** | **–** | **7,406** | **26,208** | **213,563** | **30,174** | **–** | **99,658** | **195,881** | **3,472,392** |

1. Ms S J Brennan is the Chairman of the FinChoice Investment Committee and receives fees in addition to her base Non-executive Director fees for this role – see section (g) for further details.
2. Mr Chandran has reached his maximum superannuation contribution and has requested he receives part of his SGC as additional salary.
3. Mr S J Clancy is the Chairman of the Remuneration Committee and receives fees in addition to his base Non-executive Director fees for this role – see section (g) for further details.
4. Mr A C Gale is Chairman of the Audit Committee and receives fees in addition to his base Non-executive Director fees for this role – see section (g) for further details. Mr Gale has reached his maximum superannuation contribution and has requested he receives his SGC as additional salary
5. Share based payments (Deferred STI and other) relating to Ms S R Mitchell include 2 components:
   a. 90,000 performance rights granted to the CEO to focus on critical medium term strategic objectives necessary for successful transition from the prior broker remuneration model. The grant vests in two equal tranches in April 2019 and April 2020. The performance criteria for the April 2019 tranche was the implementation of the new broker and advisor remuneration structures. These rights vested in FY 2019. The performance criteria for the second tranche related to network engagement measures and continued service. These rights vested during the year.
   b. Deferred STI of $38,591 in relation to FY 2020 and $8,835 in relation to FY 2018 being 50% of the total STI granted or to be granted as share rights with 50% due to vest in 12 months and 50% to vest in 24 months. The terms of the performance rights are described in section (d).

# Directors' Report

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The following table shows the relative proportion of remuneration that each executive received during FY 2020 and whether it is fixed remuneration or performance based remuneration.

**TABLE I: REMUNERATION MIX**

| | Fixed/service based remuneration | | | | Performance based remuneration | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Fixed remuneration % | Share based % | Commencement share rights [1] % | Total % | Cash STI % | Share based % | Total % | Termination benefits % |
| S R Mitchell | 58% | 10% | 3% | 71% | 10% | 19% | 29% | – |
| I J Parkes | 62% | 10% | – | 72% | 19% | 9% | 28% | – |
| D C Zammit | 100% | – | – | 100% | – | – | – | – |
| S Gervois | 75% | – | – | 75% | 19% | 6% | 25% | – |
| E A Dupont-Brown | 64% | 10% | – | 74% | 17% | 9% | 26% | – |
| D M Thomas | 80% | – | – | 80% | 13% | 7% | 20% | – |
| M J Pitton | 78% | – | – | 78% | 13% | 9% | 22% | – |
| V C ten Krooden | 64% | 10% | – | 74% | 19% | 7% | 26% | – |
| N C Rose-Innes [2] | 60% | – | – | 60% | – | – | – | 40% |
| T J Milnes [2] | 49% | – | – | 49% | – | – | – | 51% |
| M J McCarney [2] | 100% | – | – | 100% | – | – | – | – |

1. Footnote 5(a) in Table H describes the terms of this grant.
2. As the percentages for those KMP who are no longer employed by Mortgage Choice Limited have a negative figure due to the forfeiture the LTIP performance rights, this percentage has been calculated on an actual cash paid out basis.

### Details of share-based remuneration

The key terms of performance shares granted as LTI awards to executive KMP that were tested during, or remain on foot at the end of, FY 2020 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year:

**TABLE J: PERFORMANCE SHARES ON FOOT OR TESTED DURING FY 2020**

| Grant date | Vesting date | Value per performanceshare at grant date [1] | % Vested |
|---|---|---|---|
| *FY 2017 LTI grants* | | | |
| 25 October 2016 | 14 September 2019 | $2.28 | 0 |
| 25 October 2016 | 14 September 2019 | $1.30 | 0 |

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

The key terms of performance rights granted that were tested during, or remain on foot at the end of, FY 2020 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year.

**TABLE K: PERFORMANCE RIGHTS ON FOOT OR TESTED DURING FY 2020**

| Grant date | Vesting date | Value per performance right at grant date [1] | Performance achieved | % |
|---|---|---|---|---|
| Vested | | | | |
| **Commencement grant** | | | | |
| 5 November 2018 | 3 April 2020 | $1.26 | achieved | 100 |
| **FY 2018 deferred STI award** | | | | |
| 7 September 2018 | 14 September 2019 | $1.50 | achieved | 100 |
| 7 September 2018 | 14 September 2020 | $1.50 | to be determined | |
| **FY 2018 performance rights** | | | | |
| 6 October 2017 | 14 September 2020 | $1.78 | to be determined | |
| 6 October 2017 | 14 September 2020 | $1.40 | to be determined | |
| **FY 2019 performance rights** | | | | |
| 28 November 2018 | 14 September 2021 | $1.23 | to be determined | |
| 28 November 2018 | 14 September 2021 | $0.81 | to be determined | |
| **FY 2020 performance rights** | | | | |
| 1 November 2019 | 14 September 2022 | $1.44 | to be determined | |
| 1 November 2019 | 14 September 2022 | $1.28 | to be determined | |
| 28 January 2020 | 14 September 2021 | $1.31 | service based | |
| 28 January 2020 | 14 September 2022 | $1.31 | service based | |

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

# Directors' Report

Continued

### Details of remuneration paid, vested or forfeited during FY 2020

The percentage of the available grant that was paid, vested or forfeited in FY 2020 is set out below.

**TABLE L: REMUNERATION FORFEITED AND VESTED DURING FY 2020 AND OUTSTANDING AT 30 JUNE 2020**

| | Cash STI | | LTI (Performance shares or rights) | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Potential Target FY 2020 bonus paid % | Potential Target FY 2020 bonus forfeited % | Financial year granted | Vested % | Forfeited % | Financial years in which shares or rights may vest | Minimum total value of grant yet to vest $ | Maximum total value of grant yet to vest[1] $ |
| S R Mitchell | 67 | 33 | 2020 | – | – | 30/6/23 | nil | 628,264 |
| | | | 2020 | – | – | 30/6/22 | nil | 290,406 |
| | | | 2019 | – | – | 30/6/22 | nil | 188,080 |
| | | | 2018 | – | – | 30/6/21 | nil | 84,299 |
| | | | 2018 | 100 | – | – | – | – |
| | | | 2018 | 100 | – | – | – | – |
| | | | 2017 | – | 100 | – | – | – |
| I J Parkes | 91 | 9 | 2020 | – | – | 30/6/23 | nil | 261,792 |
| | | | 2020 | – | – | 30/6/22 | nil | 142,006 |
| | | | 2019 | – | – | 30/6/22 | nil | 66,683 |
| S Gervois | 94 | 6 | 2020 | – | – | 30/6/23 | nil | 84,773 |
| E A Dupont-Brown | 93 | 7 | 2020 | – | – | 30/6/23 | nil | 194,935 |
| | | | 2020 | – | – | 30/6/22 | nil | 105,740 |
| | | | 2019 | – | – | 30/6/22 | nil | 36,601 |
| | | | 2018 | – | – | 30/6/21 | nil | 36,428 |
| | | | 2017 | – | 100 | – | – | – |
| D C Thomas | 58 | 42 | 2020 | – | – | 30/6/23 | nil | 108,375 |
| M J Pitton | 84 | 16 | 2020 | – | – | 30/6/23 | nil | 43,228 |
| | | | 2019 | – | – | 30/6/22 | nil | 24,065 |
| | | | 2018 | – | – | 30/6/21 | nil | 23,948 |
| | | | 2017 | – | 100 | – | – | – |
| V C ten Krooden | 100 | – | 2020 | – | – | 30/6/23 | nil | 177,216 |
| | | | 2020 | – | – | 30/6/22 | nil | 96,128 |
| | | | 2019 | – | – | 30/6/22 | nil | 26,673 |
| N C Rose-Innes | – | 100 | 2020 | – | 100 | – | – | – |
| | | | 2019 | – | 100 | – | – | – |
| | | | 2018 | – | 100 | – | – | – |
| | | | 2017 | – | 100 | – | – | – |
| T J Milnes | – | 100 | 2019 | – | 100 | – | – | – |
| | | | 2018 | – | 100 | – | – | – |
| | | | 2017 | – | 100 | – | – | – |
| M J McCarney | – | 100 | 2019 | – | 100 | – | – | – |
| | | | 2018 | – | 100 | – | – | – |
| | | | 2017 | – | 100 | – | – | – |

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

### Legacy performance awards

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

# Directors' Report

Continued

### Service agreements

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

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

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

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

The terms of employment for Dean Thomas included the provision of sign on rights to the value of 50% of base salary. These performance rights will be granted in FY 2021 and subject to performance conditions. The terms of employment for David Zammit included the provision of 165,000 sign on performance rights which will be granted in FY 2021 and subject to performance conditions.

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

### KMP equity holdings

#### a. Performance shares

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

**TABLE M: MOVEMENTS IN PERFORMANCE SHARES DURING FY 2020**

| | Balance at the start of the year | Granted as compensation | Value granted $ | Vested | Value at vesting date $ | Forfeited | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| **Executive KMP** | | | | | | | |
| S R Mitchell | 42,685 | – | – | – | – | (42,685) | – |
| I J Parkes | – | – | – | – | – | – | – |
| D C Zammit | – | – | – | – | – | – | – |
| S Gervois | – | – | – | – | – | – | – |
| E A Dupont-Brown | 23,102 | – | – | – | – | (23,102) | – |
| D C Thomas | – | – | – | – | – | – | – |
| M J Pitton | 15,142 | – | – | – | – | (15,142) | – |
| V C ten Krooden | – | – | – | – | – | – | – |
| N C Rose-Innes | 41,223 | – | – | – | – | (41,223) | – |
| T J Milnes | 22,508 | – | – | – | – | (22,508) | – |
| M J McCarney | 31,606 | – | – | – | – | (31,606) | – |

#### b. Performance rights

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

**TABLE N: MOVEMENTS IN PERFORMANCE RIGHTS DURING FY 2020**

| | Balance at the start of the year | Granted as compensation | Value granted [1] $ | Vested | Value at vesting date $ | Forfeited | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| S R Mitchell *(Commencement)* | 45,000 | – | – | (45,000) | 32,880 | – | – |
| S R Mitchell *(deferred STI)* [2] | 21,349 | 91,069 | 100,176 | (10,675) | 13,682 | – | 101,743 |
| **Share rights plan** | | | | | | | |
| S R Mitchell [3] | 219,046 | 613,840 | 818,495 | – | – | – | 832,886 |
| I J Parkes [3] | 62,790 | 304,688 | 403,798 | – | – | – | 367,478 |
| D C Zammit | – | – | – | – | – | – | – |
| S Gervois | – | 61,608 | 84,773 | – | – | – | 61,608 |
| E A Dupont-Brown [3] | 56,840 | 226,876 | 300,675 | – | – | – | 283,716 |
| D C Thomas | – | 93,750 | 108,375 | – | – | – | 93,750 |
| M J Pitton | 37,370 | 31,416 | 43,228 | – | – | – | 68,786 |
| V C ten Krooden [3] | 25,116 | 206,252 | 273,343 | – | – | – | 231,368 |
| N C Rose-Innes | 102,886 | 86,486 | 119,004 | – | – | (189,372) | – |
| T J Milnes | 57,300 | – | – | – | – | (57,300) | – |
| M J McCarney | 79,338 | – | – | – | – | (79,338) | - |

1. The unit value of performance rights subject to EPS hurdles granted during the year under the share rights plan was $1.44. The unit value of performance rights subject to TSR hurdles granted during the year under the share rights plan was $1.28. The unit value of one-off performance rights granted during the year under the share rights plan was $1.31.
2. The balance at the start of the year has been modified to reflect the share price as at the grant date of 7/9/2018. The number of share rights granted for the deferred STI share rights in relation to FY 2020 is based on the opening share price at 1 July 2019 being the effective grant date for accounting purposes.
3 Includes one-off grant of share rights as detailed in section (e).

# Directors' Report

Continued

### c. Share holdings

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

**TABLE O: MOVEMENTS IN KMP SHAREHOLDINGS DURING FY 2020**

| Name | Balance at the start of the year | Received during the year on the vesting of performance rights [1] | Received during the year on the vesting of performance shares | Purchases/sales during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | |
| V L Allen | 60,000 | – | – | – | 60,000 |
| S J Brennan | – | – | – | 14,560 | 14,560 |
| D Chandran | – | – | – | – | – |
| S J Clancy | 120,000 | – | – | – | 120,000 |
| A C Gale | – | – | – | 100,000 | 100,000 |
| P G Higgins | 254,253 | – | – | – | 254,253 |
| R G Higgins | 15,385,212 | – | – | – | 15,385,212 |
| **Executive KMP** | | | | | |
| S R Mitchell | 183,460 | 65,088 | – | – | 248,548 |
| I J Parkes | – | – | – | – | – |
| D C Zammit | – | – | – | – | – |
| S Gervois | – | – | – | – | – |
| E A Dupont-Brown | 9,287 | – | – | – | 9,287 |
| D M Thomas | – | – | – | – | – |
| M J Pitton | 7,726 | – | – | – | 7,726 |
| V C ten Krooden | – | – | – | – | – |
| N C Rose-Innes | 84,407 | – | – | – | N/A |
| T J Milnes | 133,851 | – | – | – | N/A |
| M J McCarney | 14,304 | – | – | – | N/A |

1. Shares issued on vesting of 55,675 performance rights. Additional shares represent the value of dividends over the vesting period.

## i. Glossary

The following table defines terms used throughout this Remuneration Report:

**TABLE P: GLOSSARY OF TERMS USED**

| Term | Definition |
|---|---|
| Comparator group | Pinnacle Investment Management Group Ltd, Genworth Mortgage Insurance Australia Ltd, Credit Corp Group Ltd, Navigator Global Investments Ltd, IOOF Holding Ltd, AUB Group Ltd, Eclipx Group Ltd, HUB24 Ltd, FlexiGroup Australia Ltd, Powerwrap Ltd, Perpetual Ltd, OFX Group Ltd, EQT Holdings Ltd, Evans Dixon Ltd, IMF Bentham Ltd, MyState Ltd, Centuria Capital Ltd, Money3 Corp Ltd, Australian Finance Group Ltd Zip Co Ltd, Pacific Current Group Ltd, Bell Financial Group Ltd, Sezzle Inc, Auswide Bank Ltd, Onevue Holdings Ltd, Pioneer Credit Ltd Euroz Ltd, Australian Ethical Investment Ltd, Wisr Ltd, Kina Securities Ltd, Fiducian Group Ltd, APN Property Group Ltd, Teaminvest Private Group Ltd, Collection House Ltd, Mainstream Group Holdings Ltd, CML Group Ltd, Raiz Invest Ltd, QuickFee Ltd. |
| KMP | Key management personnel, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors. KMP includes the Executives and Non-executive Directors as detailed on page 17. |
| KPI | Key Performance Indicator |
| LTI | Long Term Incentive |
| Performance right | A performance right is a right to one Mortgage Choice share, plus the number of shares that would have resulted from reinvestment of dividends paid during the vesting period on the shares acquired on vesting of the rights. In certain circumstances the Board has a discretion to pay a cash equivalent amount in lieu of an allocation of shares.<br>Performance rights are used to deliver the CEO's deferred STI awards and LTI awards to executive KMP. Prior to FY 2019, KMP LTI awards only entitled the holder to one share per performance right. |
| Performance share | Performance shares are shares in Mortgage Choice that are held in an employee share plan trust. From: 2017, LTI awards to executive KMP are delivered using performance rights. |
| PSP | Prior to 2017, the Performance Share Plan was used to make LTI awards to executives. |
| PRP | The Performance Rights Plan is used to make LTI awards to executives. |
| STI | Short Term Incentive |
| VWAP | Volume weighted average price |

# Directors' Report

Continued

### Insurance of Directors and Officers

Insurance premiums were paid for the year ended 30 June 2020 in respect of Directors' and Officers' liability and legal expenses for Directors and Officers of the Company and all controlled entities. The insurance contract prohibits disclosure of the premium paid. The insurance premiums relate to:

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

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

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

### Proceedings on behalf of the Company

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

### Non-audit services

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company or Group are important. Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for non-audit services provided during the year are set out in Note 23.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below in Note 23, did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 34.

### Rounding

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

### Auditor

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

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

Vicki Allen
Chairman

Sydney,
26 August 2020

# Auditors Independence Declaration

Auditors independence declaration from Deloitte Touche Tohmatsu

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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

26 August 2020

Dear Board Members

**Mortgage Choice Limited**

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

As lead audit partner for the audit of the financial statements of Mortgage Choice Limited for the financial year ended 30 June 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister

Heather Baister
Partner
Chartered Accountants

Mortgage Choice Limited ACN 009 161 979

# Annual Financial Report

30 June 2020

## Contents



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

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

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

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

The financial statements were authorised for issue by the Directors on 26 August 2020.

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

# Consolidated Income Statement

For the year ended 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Revenue** | 5 | | |
| Origination commission | | 61,460 | 57,858 |
| Trailing commission excluding discount unwind | | 80,892 | 82,642 |
| Trailing commission discount unwind | | 16,199 | 17,663 |
| Diversified products commission | | 3,950 | 4,677 |
| Insurance trailing commission excl. discount unwind | | 1,683 | 2,480 |
| Insurance trailing commission discount unwind | | 812 | 913 |
| Financial Planning income | | 6,656 | 7,087 |
| Franchise income | | 1,163 | 1,054 |
| Interest | | 471 | 600 |
| Sponsorship and other income | | 2,093 | 2,381 |
| | | 175,379 | 177,355 |
| **Direct costs** | | | |
| Origination commission | | (47,703) | (44,380) |
| Trailing commission excluding discount unwind | | (59,825) | (58,682) |
| Trailing commission discount unwind – finance costs | | (11,399) | (12,639) |
| Diversified products commission | | (2,823) | (3,400) |
| Insurance trailing commission excl. discount unwind | | (1,387) | (2,048) |
| Insurance trailing commission discount unwind | | (689) | (770) |
| Financial Planning commission | | (5,456) | (5,944) |
| **Gross profit** | | 46,097 | 49,492 |
| **Operating Expenses** | 6 | | |
| Sales | | (10,731) | (9,591) |
| Technology | | (5,714) | (5,234) |
| Marketing | | (6,820) | (6,403) |
| Corporate | | (9,221) | (8,331) |
| **Profit before income tax** | | 13,611 | 19,933 |
| Income tax expense | 7 | (4,186) | (6,209) |
| Profit for the period from continuing operations | | 9,425 | 13,724 |
| **Net profit attributable to the owners of Mortgage Choice Limited** | | 9,425 | 13,724 |

| Earnings per share | | Cents | Cents |
|---|---|---|---|
| **From continuing operations** | | | |
| Basic earnings per share | 29 | 7.5 | 11.0 |
| Diluted earnings per share | 29 | 7.5 | 10.9 |

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

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit for the year | 9,425 | 13,724 |
| Other comprehensive income | – | – |
| Total comprehensive income attributable to the owners of Mortgage Choice Limited | 9,425 | 13,724 |

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

# Consolidated Balance Sheet

As at 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 6,108 | 1,927 |
| Trade and other receivables | 8 | 14,120 | 13,750 |
| Contract assets | 9 | 92,091 | 98,519 |
| Total current assets | | 112,319 | 114,196 |
| **Non-current assets** | | | |
| Receivables | 8 | 3,477 | 4,220 |
| Contract assets | 9 | 279,942 | 277,949 |
| Property, plant and equipment | 10 | 575 | 717 |
| Right-of-use asset | 12 | 3,472 | – |
| Intangible assets | 13 | 10,657 | 10,132 |
| Total non-current assets | | 298,123 | 293,018 |
| **Total assets** | | 410,442 | 407,214 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 13,590 | 11,076 |
| Future trailing commissions payable | 15 | 66,956 | 70,967 |
| Lease liabilities | 16 | 1,100 | – |
| External borrowings | 2 | – | 2,500 |
| Current tax liabilities | | 350 | 510 |
| Provisions | 17 | 1,326 | 1,339 |
| **Total current liabilities** | | 83,322 | 86,392 |
| **Non-current liabilities** | | | |
| Future trailing commissions payable | 15 | 203,724 | 201,396 |
| Lease liabilities | 16 | 2,659 | – |
| Deferred tax liabilities | 11,18 | 31,064 | 32,168 |
| Provisions | 17 | 724 | 774 |
| Total non-current liabilities | | 238,171 | 234,338 |
| **Total liabilities** | | 321,493 | 320,730 |
| **Net assets** | | 88,949 | 86,484 |
| **Equity** | | | |
| Contributed equity | 19 | 8,169 | 8,097 |
| Reserves | 20(a) | 1,963 | 1,379 |
| Retained profits | 20(b) | 78,817 | 77,008 |
| **Total equity** | | 88,949 | 86,484 |

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

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

| | Notes | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 30 June 2018** | | **7,764** | **1,309** | **76,579** | **85,652** |
| Adjustment for adoption of AASB 15 | | – | – | 1,705 | 1,705 |
| **Balance as at 1 July 2018** | | **7,764** | **1,309** | **78,284** | **87,357** |
| **Total comprehensive income for the year as reported in the 2019 financial statements** | | – | – | 13,724 | 13,724 |
| Contributions of equity net of transaction costs | 20 | 333 | (333) | – | – |
| Dividends paid | 21 | – | – | (15,000) | (15,000) |
| Employee share plans – value of employee services | 30 | – | 403 | – | 403 |
| | | 333 | 70 | (15,000) | (14,597) |
| **Balance at 30 June 2019** | | **8,097** | **1,379** | **77,008** | **86,484** |
| Adjustment for adoption of AASB 16 | 1 | – | – | (116) | (116) |
| **Balance as at 1 July 2019** | | **8,097** | **1,379** | **76,892** | **86,368** |
| **Total comprehensive income for the year as reported in the 2020 financial statements** | | – | – | 9,425 | 9,425 |
| Contributions of equity net of transaction costs | 20 | 72 | (72) | – | – |
| Dividends paid | 21 | – | – | (7,500) | (7,500) |
| Employee share plans – value of employee services | 30 | – | 656 | – | 656 |
| | | 72 | 584 | (7,500) | (6,844) |
| **Balance at 30 June 2020** | | **8,169** | **1,963** | **78,817** | **88,949** |

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

# Consolidated Statement of Cash Flows

For the year ended 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | 196,519 | 195,400 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (174,221) | (176,201) |
| | | 22,298 | 19,199 |
| Income taxes paid | | (5,401) | (5,064) |
| **Net cash inflow from operating activities** | 28 | 16,897 | 14,135 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant, equipment and intangibles | | (3,253) | (3,755) |
| Loans to franchisees net of repayments | | 1,130 | 150 |
| Interest received | | 471 | 600 |
| **Net cash (outflow) from investing activities** | | (1,652) | (3,005) |
| **Cash flows from financing activities** | | | |
| Redraw/(payment) of external borrowings | | (2,500) | 2,500 |
| Payment of lease liabilities | | (1,017) | – |
| Interest paid | | (47) | (56) |
| Dividends paid to Company's shareholders | | (7,500) | (15,000) |
| **Net cash (outflow) from financing activities** | | (11,064) | (12,556) |
| **Net increase/(decrease) in cash and cash equivalents** | | 4,181 | (1,426) |
| Cash and cash equivalents at the beginning of the financial year | | 1,927 | 3,353 |
| **Cash and cash equivalents at the end of year** | | 6,108 | 1,927 |

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Summary of significant accounting policies

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

### A. Basis of preparation

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

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. 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 provides support for the ability of the company to remain a going concern at the time of signing of the Financial Statements.

#### Compliance with IFRS

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

#### Historical cost convention

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

#### Critical accounting estimates

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

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

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the accounting period that begins on or after 1 July 2019.

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

- AASB 16 Leases
- AASB 2017-4 Amendments – Interpretation 23 Uncertainty over Income Tax Treatments
- AASB 2018-1 Amendments – Annual Improvements 2015-2017 Cycle

#### Impact of the application of AASB 16 Leases

#### General impact of application of AASB 16 Leases

AASB 16 Leases (AASB16) introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements and the impact of the adoption of AASB 16 on the Group's consolidated financial statements are described below.

#### Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will continue to be applied to leases entered into or modified before 1 July 2019.

The change in definition of a lease mainly relates to the concept of control. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019. The Group notes that the new definition in AASB 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

On 1 July 2019 (the date of initial application of AASB 16), the Group has applied AASB 16 using the cumulative catch-up approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under AASB 117 and related interpretations. The details of the changes in accounting policies are disclosed as follows:

#### Significant accounting policies relating to leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date in the consolidated statement of financial position. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. Depreciation of right-of-use assets is recognised on the consolidated statement of profit and loss.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Interest on lease liabilities is recognised in the consolidated statement of profit or loss.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised, or as appropriate.

Lease payments are recognised as amortisation expense of the right-of-use asset over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

### Transition

The Group leases five office premises that were previously classified as operating leases under AASB 117. The average lease term is 5 years. The Group has the option to extend three of the leases for an additional period of time after the end of the non-cancellable period, and this has not been accounted for in determining the minimum lease payments. The Group's obligations are secured by the lessors' title to the leased assets for such leases and bank guarantees held.

At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the lease payments as if AASB 16 had applied from the commencement, discounted at 3.2% being the Group's incremental borrowing rate as at 1 July 2019. The Group has applied the approach of measuring right-of-use assets retrospectively, as if AASB 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Elected to not recognise a right-of-use asset and corresponding lease liability for leases that expire within 12 months of initial date of application. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease. Below is the financial impact on transition to AASB 16 as at 1 July 2019:

The following table shows the operating lease commitments disclosed applying IAS 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

| | $'000 |
|---|---|
| Operating lease commitments as at 30 June 2019 | 4,753 |
| Short term leases and leases of low-value assets | (5) |
| Effect of discounting the above amounts | (177) |
| Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments | 4,571 |
| **Lease liabilities recognised at 1 July 2019** | **4,571** |

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

| | Effect on Retained Earnings $'000 |
|---|---|
| **Opening balance under AASB 117** | **77,008** |
| Establishment of Right-of-use assets | 4,405 |
| Establishment of lease liabilities | (4,571) |
| **Impact before tax effect** | **(166)** |
| Tax effect | 50 |
| **Total impact** | **(116)** |
| **Opening balance under AASB 16** | **76,892** |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

### B. Principles of consolidation

#### i. Subsidiaries

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

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

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

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

#### ii. Employee Share Trust

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

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

### C. Segment reporting

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

### D. Revenue recognition

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

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

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 recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as future trailing commissions payable 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.

Revenue from sale of services is recognised as follows:

#### i. Origination commissions arising from mortgage broking activities

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

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

#### ii. Trailing commissions arising from mortgage broking activities

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

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

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

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

#### iii. Diversified commissions

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

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

#### iv. Financial planning revenue

##### a. Advice fees

Revenue for one-off advice is recognised at a point in time the advice is delivered to the customer.

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

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

b. Life insurance upfront commission

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

c. Life insurance trailing commission

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

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

### v. Franchise income

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

### vi. Interest income

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

### vii. Sponsorship and other income

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

### E. Income tax

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

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

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

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

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

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

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

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

#### Investment allowances

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

#### Tax consolidation legislation

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

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

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

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

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

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

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

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

### F. Leases

The Group recognises a right-of-use asset and a lease liability at the lease commencement date in the consolidated statement of financial position. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. Depreciation of right-of-use assets is recognised on the consolidated statement of profit and loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Interest on lease liabilities is recognised in the consolidated statement of profit or loss.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised, or as appropriate.

Lease payments are recognised as amortisation expense of the right-of-use asset over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### G. Impairment of tangible and intangible assets

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

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

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

### H. Cash and cash equivalents

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

### I. Trade receivables

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

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

### J. Contract assets

Contract assets recognised are related to trailing commission arising from mortgage broking and insurance broking.

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

### K. Financial assets

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

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

The Group does not hold any financial assets at FVTOCI or FVTPL

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

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

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

#### Impairment of financial assets

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

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

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.

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

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

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

### L. Property, plant and equipment

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

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

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

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

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

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

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

### M. Intangible assets

#### Software

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

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

Computer software development costs recognised as assets are amortised over their estimated amortisation period.

### N. Trade and other payables

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

### O. Future trailing commissions payable

On initial recognition at settlement, along with the trailing commission revenue and contract asset referred to in Note 1(D), an associated expense and payable to the franchisees are also recognised. This is initially measured at fair value being the net present value of the expected future trailing commission payable to franchisees.

Subsequent to initial recognition and measurement, the payable is measured at amortised cost. The carrying amount of the payable is 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.

### P. Borrowing costs

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

### Q. External borrowings

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

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

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

### R Provisions

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

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

### S. Employee benefits

#### Short-term obligations

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

#### Other long-term employee benefit obligations

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

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

#### Retirement benefit obligations

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

### Share-based payments

Share based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan, the Mortgage Choice Performance Share Plan and the Mortgage Choice Share Rights Plan. Information relating to these schemes is set out in Note 30.

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

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

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

### Short-term incentive plans

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

### Termination benefits

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

### T. Contributed equity

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

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

### U. Dividends

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

### V. Earnings per share

#### i. Basic earnings per share

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

#### ii. Diluted earnings per share

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

### W. Rounding of amounts

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 1 Continued

### X. New accounting standards and interpretations

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

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework | 1 January 2020 | 30 June 2021 |
| AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia | 1 January 2020 | 30 June 2021 |
| AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current | 1 January 2022 | 30 June 2023 |
| AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments | 1 January 2022 | 30 June 2023 |

### Y. Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in Note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### Investments in subsidiaries

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

#### Financial guarantees

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

## Note 2 Financial risk management

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

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

The Group holds the following financial instruments and contract assets:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Financial Assets** | | |
| **Current** | | |
| Cash and cash equivalents | 6,108 | 1,927 |
| Trade and other receivables [a] | 13,357 | 13,146 |
| Contract assets | 92,091 | 98,519 |
| **Non-current** | | |
| Receivables | 3,477 | 4,220 |
| Contract assets | 279,942 | 277,949 |
| | 394,975 | 395,761 |

a. Excludes prepayments.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Financial Liabilities** | | |
| **Current** | | |
| Trade and other payables | 13,590 | 11,076 |
| Future trailing commissions payable | 66,956 | 70,967 |
| External borrowings | – | 2,500 |
| **Non -current** | | |
| Future trailing commissions payable | 203,724 | 201,396 |
| | 284,270 | 285,939 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 2 Continued

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

### I. Market risk

#### Interest rate risk

The Group's main interest rate risk arises from cash, cash equivalents and external borrowings. At 30 June 2020 the weighted average interest rate on its cash balances was 0.25% (2019 1.25%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by $56,000 (2019 $57,000). A decrease of 100 basis points would reduce the Group's after tax result by $42,000 (2019 $57,000).

### II. Credit risk

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

As the Group is only engaged in broking activities, it is not exposed to the credit risk of the underlying loans but only bears the risk of non-payment of future trailing commissions by lenders should they become insolvent. Correspondingly, there is no legal requirement to pay franchisees trailing commissions that have not been received. The Group judges there to be an increase in credit risk if the receivable becomes 30 days past due. The Group's expected credit losses has been determined to be not material due to the Group's history of no historical losses and the risk profile of the Group's lender panel. Lenders have offered customers affected by COVID-19, repayment holidays on a number of loans but continue to pay trail on those loans as these have not been classified in the industry as arrears for trail commission purposes.

| 2020 | Standard & Poor's Credit Rating | Cash $ 000's | Trade and Franchisee Receivables $ 000's | Contract Assets $ 000's |
|---|---|---|---|---|
| ADI's | AA- | 6,108 | 8,233 | 227,195 |
| | A+ | | 2,041 | 46,215 |
| | A | | 854 | 27,026 |
| | A- | | 5 | 301 |
| | BBB+ | | 457 | 8,879 |
| | BBB | | 1,349 | 34,531 |
| | BBB- | | – | – |
| | Not rated | | 575 | 5,752 |
| | | 6,108 | 13,515 | 349,899 |
| Non ADI's | AA- | | – | – |
| | A+ | | 296 | 11,366 |
| | A | | – | – |
| | A- | | – | – |
| | BBB+ | | – | – |
| | BBB | | – | – |
| | BBB- | | 102 | 2,696 |
| | Not rated | | 6,324 | 8,072 |
| | | – | 6,722 | 22,134 |
| Provision for Lender clawbacks | | | (3,403) | |
| **Total Receivable** | | 6,108 | 16,834 | 372,033 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 2 Continued

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

### III. Liquidity risk and fair value estimation

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets. The Group's liquidity risk has not been impacted by COVID-19 with increased settlements volumes in the last 3 months of FY 2020 and lenders continuing to pay of trailing commission while providing customers with repayment holidays.

The tables below analyse the Group's financial assets into relevant maturity groupings based on the expected future cashflows. No financial assets are past due or impaired at 30 June 2020 (2019: nil).

| At 30 June 2020 | Less than 6 months $'000 | 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total cash flows $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|---|---|
| Non-derivatives | | | | | | | |
| Interest bearing | | | | | | | |
| Cash and cash equivalents | 6,106 | – | – | – | – | 6,106 | 6,106 |
| Franchisee receivables | 843 | 857 | 1,302 | 1,544 | 497 | 5,043 | 4,859 |
| Non-interest bearing | | | | | | | |
| Cash and cash equivalents | 2 | – | – | – | – | 2 | 2 |
| Trade receivable | 11,693 | – | – | – | – | 11,693 | 11,693 |
| Franchisee and other receivables | 256 | 22 | 4 | – | – | 282 | 282 |
| Contract assets | 48,964 | 44,788 | 76,722 | 147,111 | 112,425 | 430,010 | 372,033 |
| | 67,864 | 45,667 | 78,028 | 148,655 | 112,922 | 453,136 | 394,975 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 2 Continued

| At 30 June 2019 | Less than 6 months $'000 | 6 – 12 months $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Total cash flows $'000 | Carrying amount $'000 |
|---|---|---|---|---|---|---|---|
| Non-derivatives | | | | | | | |
| Interest bearing | | | | | | | |
| Cash and cash equivalents | 1,925 | – | – | – | – | 1,925 | 1,925 |
| Franchisee receivables | 1,263 | 1,113 | 1,909 | 2,356 | 131 | 6,771 | 6,088 |
| Non-interest bearing | | | | | | | |
| Cash and cash equivalents | 2 | – | – | – | – | 2 | 2 |
| Trade receivable | 11,015 | – | – | – | – | 11,015 | 11,015 |
| Franchisee and other receivables | 263 | – | – | – | – | 263 | 263 |
| Contract assets | 50,291 | 45,816 | 78,886 | 151,613 | 116,137 | 442,743 | 376,468 |
| | 64,759 | 46,929 | 80,795 | 153,969 | 116,268 | 462,719 | 395,761 |

The fair value of the contract assets is $395,900,000 (2019 – $385,436,000). The fair value of all other assets is the same as their carrying amount. The fair value of the contract assets would be classified as Level 3 in the fair value hierarchy. It has been determined in accordance with generally accepted pricing models using a discounted cash flow valuation technique, which requires the use of management assumptions as disclosed in Note 3 with the exception of the discount rate for which management has applied a discount rate of 2.28% (2019 – 2.91%) for residential trailing commissions and 4.49% (2019 – 4.8%) for insurance products. There has been no change to the valuation technique during the year.

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

| **Contractual maturities of financial liabilities at 30 June 2020** | **Less than 6 months $'000** | **6 – 12 months $'000** | **Between 1 and 2 years $'000** | **Between 2 and 5 years $'000** | **Over 5 years $'000** | **Total cash flows $'000** | **Carrying amount $'000** |
|---|---|---|---|---|---|---|---|
| Non-derivatives | | | | | | | |
| Non-interest bearing | | | | | | | |
| Trade payables | 10,764 | – | – | – | – | 10,764 | 10,764 |
| Lease liabilities | 594 | 607 | 1,259 | 1,485 | – | 3,945 | 3,759 |
| Licence fees and other payables | 2,826 | – | – | – | – | 2,826 | 2,826 |
| Future trailing commissions payable | 35,413 | 32,477 | 55,689 | 106,809 | 81,761 | 312,149 | 270,680 |
| | 49,597 | 33,084 | 56,948 | 108,294 | 81,761 | 329,684 | 288,029 |

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

The Group's most significant financial liability is related to the net present value of future trailing commissions payable. Due to the structure of the Group's commission arrangements, the total future trailing commissions payable is limited only to the total trailing commissions that are actually received and as a result naturally limits the liquidity risk of the Group. The fair value of the future trailing commissions payable is $287,275,000 (2019 – $279,750,000). The fair value of all other liabilities is the same as their carrying amount.

### External borrowings

In FY 2019, the Group obtained a new term loan facility to the amount of $4,500,000. During the year, this facility was repaid and the term expired. In accordance with the terms of the Group's corporate debt and overdraft facilities, the Group is required to comply with certain covenants. During the period and as at 30 June 2020, the Group was compliant with these covenants.

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

### IV. Prepayment risk

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 3 Critical accounting estimates and judgements

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

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

### Trailing commissions

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

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

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

The significant assumptions used in the valuation are listed below:

| | 2020 | 2019 |
|---|---|---|
| Weighted average loan life | 3.96 years | 3.97 years |
| Average discount rate | 4.4% | 4.9% |
| Overall average percentage paid to franchisees | 72.3% | 72.4% |
| Average percentage paid to franchisees – under the current remuneration structure | 76.4% | 76.4% |

The Group considered the economic uncertainty caused by COVID-19 and its potential impacts on future trailing commissions, particularly focusing on FY 2021-2022. 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 highly uncertain future due to the impact of COVID-19. The valuation has been determined on the basis that the higher run-off rates experienced in the final quarter of FY 2020 will continue for the first half of FY 2021 after which they will return to the lower levels experienced in FY 2019 and first three quarters of FY 2020.

If the economic uncertainty causes the housing market to slow and settlement activity to reduce, the run off rate experienced by the portfolio would likely slow, which in turn would increase the value of the contract asset. If the lower run-off rate experienced in FY 2019 and FY 2020 was applied for the full year, net assets would increase by $1.4 million.

In contrast, 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 full year, net assets would decrease by $1.1 million. Management considered these factors and the associated uncertainties when determining the repayment profile and assumptions applied in the valuations at 30 June 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. Although the payout rate is determined by settlement volumes and loanbook size, the long term rate 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 $1.6m, representing 0.66% of the recognised payable balance.

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

- a decrease in net assets of $4.7 million (made up of decreases in current assets of $1.2 million, non-current assets of $23.9 million, current liabilities of $0.9 million, non-current liabilities of $17.4 million and deferred tax liabilities of $2.1 million) if run-off rates increase by 10%; or
- an increase in net assets of $5.4 million (made up of a increases in current assets of $1.2 million and non-current assets of $27.1 million, current liabilities of $0.9 million, non-current liabilities of $19.7 million and deferred tax liabilities of $2.3 million) if run-off rates decrease by 10%.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 3 Continued

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 assumptions used in the valuation of future trailing commissions were changed to reflect an extension of the current economic environment for the short to medium term. These changes to the trailing commission model resulted in a $1.58 million positive adjustment after tax to the Group's profit and loss for FY 2020 (2019 – $2.67 million positive adjustment). The impact is detailed in the table below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Increase/(decrease) in receivables | 7,804 | 13,644 |
| (Increase)/decrease in payables | (5,550) | (9,835) |
| Net adjustment before tax | 2,254 | 3,809 |
| Tax effect | 676 | 1,143 |
| Adjustment after tax | 1,578 | 2,666 |

## Note 4 Segment information

### a) Description of segments

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

The Chief Executive Officer considers the business from both a product and cash versus IFRS presentation of the results. Therefore, management has identified two reportable product segments, Mortgage Choice franchised mortgage broking (MOC) and Mortgage Choice's financial planning arm (FinChoice). FinChoice includes revenue from wealth products, including investment advice as well as all risk insurance products written across the Group. Operating expenses presented in FinChoice represent the expenses solely attributable to that business segment. The Group operates only in Australia.

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

Information provided to the Chief Executive Officer for the year ended 30 June 2020 is as follows:

**PRODUCT SEGMENTS**

| 2020 | Total $'000 | MOC $'000 | FinChoice $'000 |
|---|---|---|---|
| Revenue | 175,379 | 166,139 | 9,240 |
| Gross Profit (IFRS) | 46,097 | 44,443 | 1,654 |
| Gross profit (cash) | 48,441 | 46,480 | 1,961 |
| Depreciation and amortisation | 2,811 | 2,811 | – |
| Amortisation of right-of-use asset | 1,138 | 1,138 | – |
| OPEX (excl SBR[1]) | 31,830 | 29,200 | 2,630 |
| Income tax expense | 4,186 | 4,479 | (293) |
| NPAT (IFRS) | 9,425 | 10,130 | (705) |
| NPAT (cash) | 11,719 | 12,181 | (462) |

| 2019 | Total $'000 | MOC $'000 | FinChoice $'000 |
|---|---|---|---|
| Revenue | 177,355 | 166,818 | 10,537 |
| Gross Profit (IFRS) | 49,492 | 47,748 | 1,744 |
| Gross profit (cash) | 49,352 | 47,464 | 1,888 |
| Depreciation and amortisation | 2,143 | 2,143 | – |
| OPEX (excl SBR[1]) | 29,157 | 27,287 | 1,870 |
| Income tax expense | 6,209 | 6,247 | (38) |
| NPAT (IFRS) | 13,724 | 13,812 | (88) |
| NPAT (cash) | 14,028 | 14,007 | 21 |

1. Share based remuneration

# Notes to Consolidated Financial Statements

30 June 2020

## Note 4 Continued

### Cash versus IFRS

| | IFRS | | | Cash[1] | | |
|---|---|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | Change % | **2020 $'000** | 2019 $'000 | Change % |
| Origination commission | **61,460** | 57,858 | 6% | **61,460** | 57,858 | 6% |
| Trailing commission[2] | **97,091** | 100,305 | (3%) | **99,287** | 99,827 | (1%) |
| | **158,551** | 158,163 | 0% | **160,747** | 157,685 | 2% |
| Origination commission paid | **47,703** | 44,380 | 7% | **47,703** | 44,380 | 7% |
| Trailing commission paid[2] | **71,224** | 71,321 | (0%) | **71,406** | 71,129 | 0% |
| | **118,927** | 115,701 | 3% | **119,109** | 115,509 | 3% |
| **Net core commission** | **39,624** | 42,462 | **(7%)** | **41,638** | 42,176 | **(1%)** |
| Diversified products net revenue | **1,113** | 1,239 | (10%) | **1,133** | 1,266 | (11%) |
| Financial Planning net revenue | **1,633** | 1,756 | (7%) | **1,940** | 1,875 | 3% |
| Other income | **3,727** | 4,035 | (8%) | **3,727** | 4,035 | (8%) |
| **Gross profit** | **46,097** | 49,492 | **(7%)** | **48,438** | 49,352 | **(2%)** |
| Operating expenses | **31,830** | 29,157 | 9% | **31,830** | 29,157 | 9% |
| Share based remuneration | **656** | 402 | 63% | **–** | – | |
| Net profit before tax | **13,611** | 19,933 | (32%) | **16,608** | 20,195 | (18%) |
| **Net profit after tax** | **9,425** | 13,724 | **(31%)** | **11,719** | 14,028 | **(16%)** |

| | IFRS | | | Cash | | |
|---|---|---|---|---|---|---|
| | **2020 $'000** | 2019 $'000 | Change % | **2020 $'000** | 2019 $'000 | Change % |
| Diversified products commissions | **3,882** | 4,511 | (14%) | **3,982** | 4,642 | (14%) |
| Diversified products commissions paid | **2,769** | 3,272 | (15%) | **2,849** | 3,376 | (16%) |
| **Diversified products net revenue** | **1,113** | 1,239 | (10%) | **1,133** | 1,266 | (11%) |
| Financial Planning revenue | **9,219** | 10,646 | (13%) | **11,357** | 11,245 | 1% |
| Financial Planning payments | **7,586** | 8,890 | (15%) | **9,417** | 9,370 | 1% |
| **Financial Planning net revenue** | **1,633** | 1,756 | (7%) | **1,940** | 1,875 | 3% |
| Franchise Income | **1,163** | 1,054 | 10% | **1,163** | 1,054 | 10% |
| Interest | **471** | 600 | (22%) | **471** | 600 | (22%) |
| Other income | **2,093** | 2,381 | (12%) | **2,093** | 2,381 | (12%) |
| **Other income** | **3,727** | 4,035 | (8%) | **3,727** | 4,035 | (8%) |

1. Cash is based on accruals accounting and excludes share based remuneration and the net present value of future trailing commissions receivable and payable.
2. Trailing commission income and trailing commission paid include discount unwind as itemised in the consolidated income statement.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 4 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 $'000 | Financial Planning $'000 |
|---|---|---|---|
| Consolidated Income statement | | | |
| Revenue | | | |
| Diversified products commission | 3,950 | 3,338 | 612 |
| Insurance trailing commission excluding discount unwind | 1,683 | 511 | 1,172 |
| Insurance trailing commission discount unwind | 812 | 33 | 779 |
| Financial Planning income | 6,656 | – | 6,656 |
| | | 3,882 | 9,219 |
| Direct costs | | | |
| Diversified products commission | 2,823 | 2,347 | 476 |
| Insurance trailing commission excluding discount unwind | 1,387 | 395 | 992 |
| Insurance trailing commission discount unwind | 689 | 27 | 662 |
| Financial Planning payments | 5,456 | – | 5,456 |
| | | 2,769 | 7,586 |

| 2019 | Total | Diversified Products $'000 | Financial Planning $'000 |
|---|---|---|---|
| Consolidated Income statement | | | |
| Revenue | | | |
| Diversified products commission | 4,677 | 4,511 | 166 |
| Insurance trailing commission excluding discount unwind | 2,480 | – | 2,480 |
| Insurance trailing commission discount unwind | 913 | – | 913 |
| Financial Planning income | 7,087 | – | 7,087 |
| | | 4,511 | 10,646 |
| Direct costs | | | |
| Diversified products commission | 3,400 | 3,272 | 128 |
| Insurance trailing commission excluding discount unwind | 2,049 | – | 2,049 |
| Insurance trailing commission discount unwind | 770 | – | 770 |
| Financial Planning payments | 5,944 | – | 5,944 |
| | | 3,272 | 8,891 |

### c. Other information

#### i. Operating income

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

#### ii. Net profit after tax

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash Net profit after tax | 11,719 | 14,028 |
| NPV future trails on new loans originated, net of payout | 11,847 | 11,012 |
| Less net cash from trail previously recognised under IFRS | (16,006) | (16,211) |
| NPV future trails on new insurance policies, net of payout | 186 | 238 |
| Less net cash trail from insurance policies previously recognised under IFRS | (416) | (338) |
| Plus adjustments to NPV assumptions | 1,855 | 2,666 |
| Gain/(loss) on prepayment/(establishment) of trail liability | 127 | 2,040 |
| Plus reversal of amortisation of trail liability [1] | 769 | 691 |
| Less share based payments expense | (656) | (402) |
| IFRS | 9,425 | 13,724 |

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 4 Continued

### iii. Gross profit and net core commissions

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

| | Gross Profit | | Net core commissions | |
|---|---|---|---|---|
| | **2020 $000's** | 2019 $000's | **2020 $000's** | 2019 $000's |
| Cash | **48,438** | 49,352 | **41,638** | 42,176 |
| NPV future trails on new loans originated, net of payout | **16,924** | 15,731 | **16,924** | 15,731 |
| Less net cash from trail previously recognised under IFRS | **(22,865)** | (23,158) | **(22,865)** | (23,158) |
| NPV future trails on new insurance policies, net of payout | **265** | 338 | **–** | – |
| Less net cash trail from insurance policies previously recognised under IFRS | **(595)** | (483) | **–** | – |
| Plus adjustments to NPV assumptions | **2,650** | 3,809 | **2,647** | 3,809 |
| Gain/(loss) on prepayment/(establishment) of trail liability | **181** | 2,915 | **181** | 2,915 |
| Plus reversal of amortisation of trail liability [1] | **1,099** | 988 | **1,099** | 988 |
| IFRS | **46,097** | 49,492 | **39,624** | 42,461 |

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

### iv) Timing of revenue recognition

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Performance obligations met at a point in time | | |
| MOC | | |
| Origination commission | **61,460** | 57,858 |
| Trailing commission | **97,091** | 100,305 |
| Diversified products commissions | **3,882** | 4,511 |
| Franchise Income | **1,163** | 1,054 |
| Other income | **2,072** | 2,368 |
| | **165,668** | 166,096 |
| FinChoice | | |
| Financial planning revenue | **5,726** | 7,571 |
| Other income | **6** | 16 |
| | **5,732** | 7,587 |
| Total Point in time revenue | **171,400** | 173,684 |
| Performance obligations met over time | | |
| FinChoice | | |
| Financial planning revenue | **3,493** | 3,075 |
| Other income | **13** | (4) |
| Total Point over time revenue | **3,506** | 3,071 |

## Note 5 Revenue

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| Revenue from continuing operations | | |
| Sales revenue | | |
| Commission and advice | **155,804** | 155,796 |
| Other revenue | | |
| Interest earned on deposits and loans | **471** | 600 |
| Interest in relation to discount unwind | **17,011** | 18,578 |
| Sponsorship and other income – point in time | **2,093** | 2,385 |
| Sponsorship and other income – over time | **–** | (4) |
| | **175,379** | 177,355 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 6 Expenses

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Personnel expenses | | |
| Salaries and wages | 11,318 | 11,827 |
| Termination payments | 464 | 60 |
| Cash bonuses | 916 | 74 |
| Share based remuneration | 656 | 402 |
| Contractors | 312 | 346 |
| Staff on-costs including superannuation | 1,750 | 1,798 |
| | 15,416 | 14,507 |

## Note 7 Income tax

### a. Income tax expense

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Current tax | 3,082 | 4,958 |
| Deferred tax | 1,104 | 1,255 |
| Under (over) provided in prior years | – | (4) |
| | 4,186 | 6,209 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | 4,186 | 6,209 |
| | 4,186 | 6,209 |
| Deferred income tax (revenue) expense including income tax expense comprises: | | |
| (Increase)/decrease in deferred tax assets (Note 11) | 213 | (2,880) |
| Increase/(decrease) in deferred tax liabilities (Note 18) | (1,317) | 4,135 |
| | (1,104) | (1,255) |

### b. Numerical reconciliation of income tax expense to prima facie tax payable

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit from continuing operations before income tax expense | 13,611 | 19,933 |
| Income tax calculated @ 30% (2019 – 30%) | 4,083 | 5,980 |
| Tax effect of amounts which are not deductible/(assessable) in calculating taxable income | 244 | 233 |
| Research and Development Tax Incentive | (141) | - |
| | 4,186 | 6,213 |
| Under/(over) provision from prior years | - | (4) |
| Income tax expense | 4,186 | 6,209 |

No part of the deferred tax asset shown above and in Note 11 is attributable to tax losses.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 8 Trade and other receivables

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| Trade receivables[1] | 11,694 | – | 11,694 | 11,016 | – | 11,016 |
| Franchisee receivables | 1,526 | 3,477 | 5,003 | 1,897 | 4,220 | 6,117 |
| Other receivables | 137 | – | 137 | 233 | – | 233 |
| Prepayments | 763 | – | 763 | 604 | – | 604 |
| | 14,120 | 3,477 | 17,597 | 13,750 | 4,220 | 17,970 |

1. Subject to a limited charge in favour of The Loan Book Security Trust (refer to Note 14)

### a. Other receivables

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

### b. Risk exposure

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

### c. Fair values

The carrying amounts of trade and other receivables at year end is a reasonable approximation of their fair values.

### d. Expected credit losses (ECL)

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

#### 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 Global Financial Crisis (GFC). ECL would not be material and consequently has not been recognised. As at 30 June 2020 current trade receivables were not impaired (2019 – nil).

#### Franchisee loans

As at 30 June 2020, the Group has outstanding loan receivables from various franchisees totalling $4.9m ($6.1m at 30 June 2019). All the loans are secured against the franchisee's trail book. There have not been any material historical defaults on these loans. In response to COVID-19, the Group has offered eight franchisees repayment holidays until November 2020. Commissions paid to these franchisees have been maintained at levels similar to pre COVID-19 levels. At 30 June 2020, 97% of franchisee loans accounted for less than half of the franchisee's annualised trail payments. As such, 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.

## Note 9 Contract assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| Contract assets – loan products | 87,684 | 271,402 | 359,086 | 95,243 | 266,140 | 361,383 |
| Contract assets – life insurance products | 4,407 | 8,540 | 12,947 | 3,276 | 11,809 | 15,085 |
| Total | 92,091 | 279,942 | 372,033 | 98,519 | 277,949 | 376,468 |

### a. Risk exposure

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

### b. Fair values

The carrying amounts of contract assets (future trailing commissions receivable) are accounted for at amortised cost. The fair values of the expected value of contract assets are presented in Note 2.

### c. Expected credit losses (ECL)

Future trail commission receivables are due from a combination of highly rated major lenders and smaller banks, non-bank lenders and insurance companies. As the Group is only engaged in broking activities, it is not exposed to the credit risk of the underlying loans. There has been no historical instances where a loss has been incurred, including through the GFC. COVID-19 has resulted in lenders offering relief measures including repayment holidays on loans. Lenders continue to pay trail commission on these loans. Depending on the lenders' policy, trail commission may cease after a number of months of being in arrears until such time as the loan cures or, if the loan defaults, no further trail is received in relation to that loan. This has been taken into account when determining the future assumptions used to value the contract asset. Consideration has also been given to the potential for default by lenders. With 84% of the receivable being due from AA or A rated lenders as shown in Note 2, ECL would not be material and consequently has not been recognised.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 10 Non-Current Assets – Property, plant and equipment

| | Plant and Equipment $'000 | Leasehold Improvements $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2019** | | | |
| Opening net book amount | 346 | 340 | 686 |
| Additions | 151 | 199 | 350 |
| Disposals | – | (41) | (41) |
| Depreciation charge | (186) | (92) | (278) |
| Closing net book amount | 311 | 406 | 717 |
| **At 30 June 2019** | | | |
| Cost | 2,033 | 1,517 | 3,550 |
| Accumulated depreciation | (1,722) | (1,111) | (2,833) |
| Net book amount | 311 | 406 | 717 |
| **Year ended 30 June 2020** | | | |
| Opening net book amount | 311 | 406 | 717 |
| Additions | 144 | 9 | 153 |
| Disposals | (2) | (58) | (60) |
| Depreciation charge | (181) | (54) | (235) |
| Closing net book amount | 272 | 303 | 575 |
| **At 30 June 2020** | | | |
| Cost | 2,077 | 1,468 | 3,545 |
| Accumulated depreciation | (1,805) | (1,165) | (2,970) |
| Net book amount | 272 | 303 | 575 |

## Note 11 Non-current assets – Deferred tax assets

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Net present value of future trailing commissions payable | 81,204 | 81,709 |
| Employee benefits | 484 | 485 |
| Depreciation and amortisation | (48) | (11) |
| Accrued expenses | 650 | 320 |
| Total deferred tax assets | 82,290 | 82,503 |
| Set off of deferred tax assets pursuant to set off provisions (Note 18) | (82,290) | (82,503) |
| Net deferred tax assets | – | – |
| Deferred tax assets to be recovered within 12 months | 25,472 | 24,881 |
| Deferred tax assets to be recovered after more than 12 months | 56,818 | 57,622 |
| | 82,290 | 82,503 |

### Movements

| | NPV of future trailing commissions payable $'000 | Employee benefits $'000 | Depreciation and amortisation $'000 | Accrued expenses $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| At 30 June 2018 | 78,156 | 750 | 74 | 643 | – | 79,623 |
| Charged/(credited) to the income statement | 2,923 | (265) | (85) | (323) | – | 2,880 |
| At 30 June 2019 | 81,709 | 485 | (11) | 320 | – | 82,503 |
| Charged/(credited) to the income statement | (505) | (1) | (37) | 330 | – | (213) |
| At 30 June 2020 | 81,204 | 484 | (48) | 650 | – | 82,290 |

# Notes to consolidated financial statements

30 June 2020

## Note 12 Non-current assets – Right-of-use assets

| | Right-of-use Assets $'000 |
|---|---|
| **Year ended 30 June 2020** | |
| Opening net book amount | – |
| Impact of adoption of AASB 16 | 4,406 |
| Additions | 204 |
| Depreciation charge | (1,138) |
| Closing net book amount | 3,472 |
| **At 30 June 2020** | |
| Cost | 4,610 |
| Accumulated depreciation | (1,138) |
| Net book amount | 3,472 |

The adoption of AASB 16 – Leases is discussed in Note 1.

## Note 13 Non-current assets – intangible assets

| | Computer Software $'000 |
|---|---|
| **Year ended 30 June 2019** | |
| Opening net book amount | 8,562 |
| Additions | 3,406 |
| Amortisation charge | (1,836) |
| Disposals | – |
| Closing net book amount | 10,132 |
| **At 30 June 2019** | |
| Cost | 23,265 |
| Accumulated amortisation | (13,133) |
| Net book amount | 10,132 |
| **Year ended 30 June 2020** | |
| Opening net book amount | 10,132 |
| Additions | 3,101 |
| Amortisation charge | (2,576) |
| Disposals | – |
| Closing net book amount | 10,657 |
| **At 30 June 2020** | |
| Cost | 26,366 |
| Accumulated amortisation | (15,709) |
| Net book amount | 10,657 |

### Impairment assessment

The recoverable amount of the Group's remaining operations has been determined based on a value in use calculation which uses a five year cash flow projection based on financial budgets approved by the directors for FY 2021. Cash flows beyond that one-year period have been extrapolated using a zero growth rate due to the current economic uncertainty and a discount rate of 13 per cent per annum. This growth rate does not exceed the long-term average growth rate for the market.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for the cash generating unit (CGU) to which the software is allocated. The directors believe that any reasonably possible change in the key assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGU.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 14 Current liabilities – Trade and other payables

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade payables [a] | 10,764 | 9,469 |
| Deferred revenue [b] | 667 | 347 |
| Other payables | 2,159 | 1,260 |
| | 13,590 | 11,076 |

### a. Loan Book Security Trust

Within Trade payables, $5,827,000 relates to trailing commissions payable to franchisees for the month of June 2020, some of which is subject to a security charge via the Loan Book Security Scheme which provides security for the trailing commissions payable to certain eligible franchisees based on performance criteria. Mortgage Choice Limited has granted two charges in favour of a trustee on behalf of the eligible franchisees. The independent trustee is Certes Pty Ltd.

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

As at 30 June 2020, the amount that would be subject to charge resulting from applying the specified percentage to the trailing commission immediately due to be received by Mortgage Choice Limited is $5,486,627 (2019 – $5,597,900). This is included as part of the balance of trade payables at 30 June 2020 and would be subject to charge until disbursed to the eligible franchisees. The amount subject to the charge would vary dependant on trailing commission due to be received by Mortgage Choice Limited from month to month.

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

### b. Deferred revenue

FinChoice charges ongoing service fees annually. This reflects the value of performance obligations not yet performed as at 30 June 2020.

### Fair values

The carrying amounts of trade and other payables at year end is a reasonable approximation of their fair values.

## Note 15 Future trailing commissions payable

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Current $'000 | Non-current $'000 | Total $'000 | Current $'000 | Non-current $'000 | Total $'000 |
| Future trailing commissions payable – loan products | 63,222 | 196,496 | 259,718 | 68,188 | 191,383 | 259,571 |
| Future trailing commissions payable – insurance products | 3,734 | 7,228 | 10,962 | 2,779 | 10,013 | 12,792 |
| Total | 66,956 | 203,724 | 270,680 | 70,967 | 201,396 | 272,363 |

### Fair values

The carrying amounts of the net present value of future trailing commissions payable are accounted for at amortised cost. The fair values of the net present value of future trailing commission payable are presented in Note 2.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 16 Lease liabilities

The Group leases various offices under non cancellable operating leases expiring within one to six years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The adoption of AASB 16 – Leases is discussed in Note 1.

| | As at 30 Jun 20 $'000 |
|---|---|
| Maturity analysis – contractual undiscounted cashflows | |
| Less than one year | 1,201 |
| One to five years | 2,744 |
| More than five years | – |
| Total undiscounted lease liabilities at 30 June 2020 | 3,945 |

| | As at 30 Jun 20 $'000 | As at 30-Jun-19 $'000 |
|---|---|---|
| Lease liabilities included in the Statement of financial position | | |
| Balance as at 1 July 2019 | 4,571 | – |
| New lease liabilities | 205 | – |
| Interest incurred | 138 | – |
| Payments of lease liabilities | (1,155) | – |
| Balance as at 30 June 2020 | 3,759 | – |
| Current | 1,100 | – |
| Non-current | 2,659 | – |
| | 3,759 | – |
| Amounts recognised in Statement of comprehensive income | | |
| Interest expense on lease liabillities | 138 | – |
| Amounts recognised in the Statement of cash flows | | |
| Payment of lease liabilities | 1,017 | – |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 17 Provisions

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Current $'000** | **Non-current $'000** | **Total $'000** | Current $'000 | Non-current $'000 | Total $'000 |
| Make good provision [a] | – | 439 | 439 | 58 | 439 | 497 |
| Employee entitlements – annual leave | 930 | – | 930 | 784 | – | 784 |
| Employee entitlements – long service leave | 396 | 285 | 681 | 497 | 335 | 832 |
| | 1,326 | 724 | 2,050 | 1,339 | 774 | 2,113 |

### a. Make good provision

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

## Note 18 Non-current liabilities – Deferred tax liabilities

| | **2020 $'000** | 2019 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Expected value of contract assets | **111,610** | 112,940 |
| Intangibles | **1,671** | 1,660 |
| Prepayments and other receivables | **73** | 71 |
| | **113,354** | 114,671 |
| Set off of deferred tax assets pursuant to set off provisions (Note 11) | **(82,290)** | (82,503) |
| Net deferred tax liabilities | **31,064** | 32,168 |
| Deferred tax liabilities to be settled within 12 months | **28,162** | 30,035 |
| Deferred tax liabilities to be settled after more than 12 months | **85,192** | 84,636 |
| | **113,354** | 114,671 |

### Movements – Consolidated

| | Expected value of contract assets $'000 | Intangibles $'000 | Prepayments and other receivables $'000 | Total $'000 |
|---|---|---|---|---|
| **At 30 June 2018** | **108,274** | **2,131** | **131** | **110,536** |
| Charged to the income statement | 4,666 | (471) | (60) | 4,135 |
| **At 30 June 2019** | **112,940** | **1,660** | **71** | **114,671** |
| Charged to the income statement | (1,330) | 11 | 2 | (1,317) |
| **At 30 June 2020** | **111,610** | **1,671** | **73** | **113,354** |

## Note 19 Contributed equity

| | **2020 shares #'000** | 2019 shares #'000 | **2020 shares $'000** | 2019 shares $'000 |
|---|---|---|---|---|
| Share capital | | | | |
| Ordinary shares – fully paid | **124,214** | 124,149 | **8,169** | 8,097 |

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

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

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 19 Continued

**Total contributed equity as at 30 June 2020:**

| Details | Number of shares 2020 | 2019 |
|---|---|---|
| Total ordinary shares on issue | **124,997,440** | 124,997,440 |
| Treasury shares [a] | **(783,246)** | (848,334) |
| Total ordinary shares held as contributed equity | **124,214,194** | 124,149,106 |

**a. Treasury shares**

Treasury shares are shares in Mortgage Choice Limited that are held by the Mortgage Choice Performance Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) or Share Rights Plan (SRP) (see Note 30 for further information).

| Date | Details | Number of shares |
|---|---|---|
| 1 July 2018 | Balance | 1,033,825 |
| 14 September 2018 | Shares issued under the Share Rights Plan to employees | (14,901) |
| 14 September 2018 | Shares issued under the Performance Share Plan to employees | (122,522) |
| 5 April 2019 | Shares issued under the Share Rights Plan to employees | (48,068) |
| 30 June 2019 | Balance | 848,334 |
| 14 September 2019 | Shares issued under the Share Rights Plan to employees | (12,055) |
| 5 April 2020 | Shares issued under the Share Rights Plan to employees | (53,033) |
| 30 June 2020 | Balance | 783,246 |

**Movements in ordinary share capital:**

| Date | Details | Number of shares | $'000 |
|---|---|---|---|
| 1 July 2018 | Balance | 123,963,615 | 7,764 |
| 14 September 2018 | Shares issued under the Share Rights Plan to employees | 14,901 | 30 |
| 14 September 2018 | Treasury shares issued to the Mortgage Choice Employee Incentive Trust | 122,522 | 246 |
| 5 April 2019 | Shares issued under the Share Rights Plan to employees | 48,068 | 57 |
| 30 June 2019 | Balance | 124,149,106 | 8,097 |
| 14 September 2019 | Shares issued under the Share Rights Plan to employees | 12,055 | 16 |
| 5 April 2020 | Shares issued under the Share Rights Plan to employees | 53,033 | 56 |
| 30 June 2020 | Balance | 124,214,194 | 8,169 |

**Employee share scheme**

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 30.

## Note 20 Reserves and retained profits

**a. Reserves**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Share-based payments reserve | **1,963** | 1,379 |
| Movements: | | |
| *Share-based payments reserve* | | |
| Balance 1 July | **1,379** | 1,309 |
| Performance shares expensed/(reversed) | **656** | 403 |
| Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees | **(72)** | (333) |
| Balance 30 June | **1,963** | 1,379 |

Nature and purpose of reserves

*Share-based payments reserve*

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 20 Continued

### b. Retained profits

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance 1 July | 77,008 | 76,579 |
| Adjustment for adoption of AASB 16 | (116) | – |
| Adjustment for adoption of AASB 15 | – | 1,705 |
| Net profit for the year | 9,425 | 13,724 |
| Dividends | (7,500) | (15,000) |
| Balance 30 June | 78,817 | 77,008 |

## Note 21 Dividends

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **a) Ordinary shares** | | |
| Final dividend declared out of profits of the Company for the year ended 30 June 2018 of 9.0 cents per fully paid share paid on 10 October 2018: | | |
| – Fully franked based on tax paid @ 30% | | |
| – 9.0 cents per share | – | 11,250 |
| Interim dividend declared out of profits of the Company for the half-year ended 31 December 2018 of 3.0 cents per fully paid share paid 15 April 2019: | | |
| – Fully franked based on tax paid @ 30% | | |
| – 3.0 cents per share | – | 3,750 |
| Final dividend declared out of profits of the Company for the year ended 30 June 2019 of 3.0 cents per fully paid share paid on 15 October 2019: | | |
| – Fully franked based on tax paid @ 30% | | |
| – 3.0 cents per share | 3,750 | – |
| Interim dividend declared out of profits of the Company for the half-year ended 31 December 2019 of 3.0 cents per fully paid share paid 17 April 2020: | | |
| – Fully franked based on tax paid @ 30% | | |
| – 3.0 cents per share | 3,750 | – |
| | 7,500 | 15,000 |
| **b. Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.5 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 October 2020 out of retained profits at 30 June 2020, but not recognised as a liability at year end, is | 4,375 | 3,750 |

### c. Franked dividend

The franked portions of the final dividends recommended after 30 June 2020 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2020.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2019 – 30%) | 3,457 | 1,416 |

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

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

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

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

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $1,875,000 (2019: $1,607,000).

# Notes to Consolidated Financial Statements

30 June 2020

## Note 22 Key management personnel disclosures

### Key management personnel compensation

| | 2020 $ | 2019 $ |
|---|---|---|
| Short term employee benefits | 2,935,865 | 2,230,742 |
| Post employment benefits | 169,840 | 157,587 |
| Long–term benefits | (103,095) | 30,174 |
| Termination benefits | 314,115 | – |
| Share based payments | 582,151 | 295,539 |
| Balance 30 June | 3,898,876 | 2,714,042 |

Detailed remuneration disclosures are provided in the Directors' report on pages 17 – 32 of the remuneration report.

## Note 23 Remuneration of auditors

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

| 2020 | $ |
|---|---|
| a) Audit services | |
| Deloitte Touche Tohmatsu Australian firm: | |
| – Audit and review of financial reports | 234,500 |
| Total remuneration for audit services | 234,500 |
| b) Non-audit services | |
| Deloitte Touche Tohmatsu Australian firm: | |
| – Actuarial services | 30,000 |
| Total remuneration for non-audit services | 30,000 |

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

## Note 24 Contingencies

### Contingent liabilities

The Group had contingent liabilities at 30 June 2020 in respect of:

a. Guarantees

Guarantees given in respect of premises leases $803,747 (2019: $842,423)

b. Contingent claims

From time to time disputes occur between the Company and its franchisees in the normal course of operation, a number of which may be unresolved at any point in time. At 30 June 2020 and 30 June 2019, there were no disputes or claims in progress that are expected to have a material financial impact on the Company.

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 25 Related party transactions

### I. Parent entity

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

### II. Subsidiaries

Interests in subsidiaries are set out in Note 26.

### III. Key management personnel

Disclosures relating to key management personnel are set out in Note 22. Additional disclosures are set out in the Directors' report in the remuneration report.

### IV. Loans to/from related parties

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

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

## Note 26 Subsidiaries

### Significant investments in subsidiaries

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

| | | | Equity holding* | |
|---|---|---|---|---|
| Name of entity | Country of Incorporation | Class of Shares | **2020 %** | 2019 % |
| MC Loan Book Security Pty Limited | Australia | Ordinary | 100 | 100 |
| Help Me Choose Pty Limited | Australia | Ordinary | 100 | 100 |
| FinChoice Pty Limited | Australia | Ordinary | 100 | 100 |

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

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

## Note 27 Events occurring after the balance sheet date

### Dividend payment

Subsequent to year end, a final ordinary dividend of $4,375,000 (3.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2020 on 26 August 2020 to be paid on 15 October 2020.

### 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.

# Notes to Consolidated Financial Statements

30 June 2020

## Note 28 Reconciliation of profit after income tax to net cash inflow from operating activities

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit for the year | 9,425 | 13,724 |
| Depreciation and amortisation | 3,949 | 2,114 |
| Change in net present value of future trailing inflows | 4,434 | 253 |
| Change in net present value of future trailing outflows | (1,683) | (1,528) |
| Employee expense benefits – share-based payments | 656 | 402 |
| Interest received | (471) | (601) |
| Interest paid | 47 | 56 |
| Reversal of make good provision | 58 | 40 |
| Net loss (gain) on disposal of non-current assets | 2 | – |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (598) | 663 |
| (Increase)/decrease in other operating assets | (159) | 25 |
| Increase/(decrease) in trade payables | 3,795 | (3,081) |
| Increase/(decrease) in other operating liabilities | (1,281) | 758 |
| Increase/(decrease) in provision for income taxes payable | (160) | 621 |
| Increase/(decrease) in deferred tax liabilities | (1,054) | 524 |
| Increase/(decrease) in other provisions | (63) | 164 |
| Net cash inflow from operating activities | 16,897 | 14,134 |

## Note 29 Earnings per share

| | 2020 Cents | 2019 Cents |
|---|---|---|
| a. Basic earnings per share | | |
| From continuing operations | 7.5 | 11.0 |
| b. Diluted earnings per share | | |
| From continuing operations | 7.5 | 10.9 |

| | $'000 | $'000 |
|---|---|---|
| Earnings used in calculating earnings per share | | |
| Profit from continuing operations | 9,425 | 13,724 |

| | 2020 Number | 2019 Number |
|---|---|---|
| Weighted average number of shares used as the denominator | | |
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | 124,997,440 | 124,997,440 |
| Adjustments for calculation of diluted earnings per share: | | |
| Share rights | 1,488,199 | 402,440 |
| *Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share* | 126,485,639 | 125,399,880 |

### Information concerning the classification of securities

a. Performance Share Plan

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

b. Share Rights Plan

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 30 Share-based payments

### a. Performance Share Plan (PSP)

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

Eligible employees are granted shares to a value determined by reference to the Company's reward policy and market practice with regard to share based incentive arrangements provided by peer organisations. The right to receive vested shares will lapse if the performance and service criteria are not met. No new offers have been made under the PSP in the current year.

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

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

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

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

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

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

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

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

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

# Notes to Consolidated Financial Statements

30 June 2020

## Note 30 Continued

### b. Share Rights Plan (SRP)

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

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

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

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

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

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

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

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

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

#### PERFORMANCE SHARES

| Offer Date | Vesting date | Value | Balance at start of the year Number | Granted during the year Number | Vested during the year Number | Expired during the year Number | Forfeited during the year Number | Balance at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| 25 October 2016 | 14 September 2019 | $2.28 | 146,044 | – | – | – | (146,044) | – |
| 25 October 2016 | 14 September 2019 | $1.30 | 146,044 | – | – | – | (146,044) | – |
| Total | | | 292,088 | – | – | – | (292,088) | – |
| Weighted average exercise price | | | $1.79 | $0.00 | $0.00 | $0.00 | $1.79 | $0.00 |
| **2019** | | | | | | | | |
| 17 September 2015 | 14 September 2018 | $2.01 | 137,523 | – | (137,523) | – | – | – |
| 17 September 2015 | 14 September 2018 | $1.19 | 137,523 | – | – | – | (137,523) | – |
| 25 October 2016 | 14 September 2019 | $2.28 | 146,044 | – | – | – | – | 146,044 |
| 25 October 2016 | 14 September 2019 | $1.30 | 146,044 | – | – | – | – | 146,044 |
| Total | | | 567,134 | – | (137,523) | – | (137,523) | 292,088 |
| Weighted average exercise price | | | $1.70 | $0.00 | $2.01 | $0.00 | $1.19 | $1.79 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 30 Continued

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

**SHARE RIGHTS**

| Offer Date | Vesting date | Value | Balance at start of the year Number | Granted during the year Number | Vested during the year Number | Expired during the year Number | Forfeited during the year Number | Balance at end of the year Number |
|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | |
| 06 October 2017 | 14 September 2020 | $1.78 | 171,068 | – | – | – | (83,282) | 87,786 |
| 06 October 2017 | 14 September 2020 | $1.40 | 114,044 | – | – | – | (55,520) | 58,524 |
| 03 April 2018[1] | 03 April 2020 | $1.26 | 45,000 | – | (45,000) | – | – | – |
| 03 April 2018 | 14 September 2019 | $1.50 | 10,675 | – | (10,675) | – | – | – |
| 03 April 2018 | 14 September 2020 | $1.50 | 10,674 | – | – | – | – | 10,674 |
| 28 November 2018 | 14 September 2021 | $1.23 | 406,978 | – | – | – | (126,088) | 280,890 |
| 28 November 2018 | 14 September 2021 | $0.81 | 271,318 | – | – | – | (84,058) | 187,260 |
| 01 November 2019 | 14 September 2022 | $1.44 | – | 505,207 | – | – | (51,892) | 453,315 |
| 01 November 2019 | 14 September 2022 | $1.28 | – | 336,805 | – | – | (34,594) | 302,211 |
| 24 December 2019 | 14 September 2022 | $1.26 | – | 56,250 | – | – | – | 56,250 |
| 24 December 2019 | 14 September 2022 | $1.00 | – | 37,500 | – | – | – | 37,500 |
| 28 January 2020 | 14 September 2021 | $1.31 | – | 447,657 | – | – | – | 447,657 |
| 28 January 2020 | 14 September 2022 | $1.31 | – | 447,657 | – | – | – | 447,657 |
| Total | | | 1,029,757 | 1,831,076 | (55,675) | – | (435,434) | 2,369,724 |
| Weighted average exercise price | | | $1.24 | $1.33 | $1.30 | $0.00 | $1.30 | $1.29 |
| **2019** | | | | | | | | |
| 06 October 2017 | 14 September 2020 | $1.78 | 171,068 | – | – | – | – | 171,068 |
| 06 October 2017 | 14 September 2020 | $1.40 | 114,044 | – | – | – | – | 114,044 |
| 03 April 2018[1] | 03 April 2019 | $1.26 | – | 45,000 | (45,000) | – | – | – |
| 03 April 2018[1] | 03 April 2020 | $1.26 | – | 45,000 | – | – | – | 45,000 |
| 03 April 2018 | 14 September 2019 | $1.50 | – | 10,675 | – | – | – | 10,675 |
| 03 April 2018 | 14 September 2020 | $1.50 | – | 10,674 | – | – | – | 10,674 |
| 28 November 2018 | 14 September 2021 | $1.23 | – | 406,978 | – | – | – | 406,978 |
| 28 November 2018 | 14 September 2021 | $0.81 | – | 271,318 | – | – | – | 271,318 |
| Total | | | 285,112 | 789,645 | (45,000) | – | – | 1,029,757 |
| Weighted average exercise price | | | $1.63 | $1.10 | $1.26 | – | – | $1.24 |

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

The weighted average remaining contractual life of performance share rights outstanding at the end of the period was 1.58 years (2019 – 1.84 years).

### CEO Share rights offered 3rd April 2018

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

### c. Expenses arising from share-based payment transactions

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

| | 2020 $'00 | 2019 $'000 |
|---|---|---|
| Share rights issued under PSP | 656 | 402 |
| | 656 | 402 |

# Notes to Consolidated Financial Statements

30 June 2020

## Note 31 Parent entity financial information

### a. Summary financial information

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance sheet | | |
| Current assets | 107,072 | 110,046 |
| Total assets | 397,292 | 391,745 |
| Current liabilities | 80,288 | 85,168 |
| Total liabilities | 311,742 | 309,885 |
| *Shareholders' equity* | | |
| Issued capital | 8,169 | 8,097 |
| Share-based payments reserve | 1,962 | 1,379 |
| Retained profits | 75,419 | 72,384 |
| | 85,550 | 81,860 |
| Profit or loss for the year | 10,170 | 13,366 |
| Total comprehensive income | 10,170 | 13,366 |

### b. Guarantees entered into by the parent entity

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

The parent entity has provided guarantees in respect of obligations under premises leases of its head office and state offices totalling $803,747 (2019 – $842,423). No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees.

### c. Contingent liabilities of the parent entity

Other than the guarantees mentioned above, the parent entity did not have any contingent liabilities as at 30 June 2020 or 30 June 2019.

# Directors' Declaration

30 June 2020

In the Directors' opinion:

a) the financial statements and notes set out on pages 35 – 73 are in accordance with the *Corporations Act 2001*, including:

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

   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of their performance, for the financial year ended on that date; and

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

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

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

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

Vicki Allen
Chairman

Sydney.
26 August 2020

# Independent Audit Report

to members of Mortgage Choice Limited

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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

### Report on the Audit of the Financial Report

*Opinion*

We have audited the financial report of Mortgage Choice Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

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

*Basis for Opinion*

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

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

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Audit Report

to members of Mortgage Choice Limited

Deloitte.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Future Trailing commissions**<br><br>As at 30 June 2020, the Group has recognised a contract asset trailing commissions receivable of $372 million as disclosed in Note 2 and 9 representing the expected value of future trailing commissions receivable. An associated trailing commissions payable of $270 million is also recognised and disclosed in Note 2 and 15 representing the net present value of future trailing commissions payable by the Group.<br><br>Both the expected value of the contract asset trailing commission receivable and the fair value of the associated trailing commissions payable at recognition require significant management judgement with regard to:<br>• Estimation of the discount rate to be applied to loans originated in that year,<br>• Loan book run off rate assumptions; and<br>• Percentage of commissions paid to franchisees. | Our audit procedures included, but were not limited to:<br><br>• Testing the key controls management have in place to determine the expected value of the future trailing commission receivable and payable,<br>• Comparing previously forecast trailing commission income and expense by management to the actual results to assess historical accuracy of management's estimates,<br>• Assessing the extraction of loan data used in management's model for completeness,<br>• Evaluating the accuracy of the loan data by matching a sample of loans listed on the loan data to external Lender Commission Statements,<br>• Challenging the reasonableness of management's assumptions in the determination of the trailing commission receivable and payable based on industry comparative run off rates and market observable inputs for the discount rate,<br>• Recalculating the expected percentage to be paid to franchisees based on the loan book data and remuneration structure communicated,<br>• Assessing management's scenario analysis performed on the most sensitive assumption and ensuring appropriate disclosure in the financial statements,<br>• Run an independent valuation model, developed by internal experts, using the loan data inputs and assumptions applied by management, to recalculate the valuation of trailing commission receivable and payable. This was compared to management's valuation, in order to test the integrity and mathematical accuracy of management's model, and<br>• Assessing the application of AASB 9 Financial Assets (AASB 9) by management to the trailing commission asset, including the application of the impairment provisions to the amounts recognised.<br><br>We also considered the appropriateness of the Group's disclosures in Note 3 to the financial statements. |

# Independent Audit Report

to members of Mortgage Choice Limited

Deloitte.

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

*Responsibilities of the Directors for the Financial Report*

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

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

*Auditor's Responsibilities for the Audit of the Financial Report*

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

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

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

# Independent Audit Report

to members of Mortgage Choice Limited

Deloitte.

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

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

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

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

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

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

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

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

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 10 to 32 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Mortgage Choice Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

# Independent Audit Report

to members of Mortgage Choice Limited

Deloitte.

*Responsibilities*

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants
Sydney, 26 August 2020

# Shareholder Information

For the year ended 30 June 2020

The Shareholder information set out below was applicable as at 31 July 2020.

## A. Distribution of equity securities

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

| Class of equity security (Ordinary Shares) | No of Holders |
|---|---|
| 1 – 1,000 | 879 |
| 1,001 – 5,000 | 1,560 |
| 5,001 – 10,000 | 805 |
| 10,001 – 100,000 | 1,039 |
| 100,001 and over | 79 |
| | **4,362** |

There were 527 holders of less than a marketable parcel of ordinary shares.

## B. Equity security holders

### Twenty Largest quoted equity security holders

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

| Name | Number held | Percentage of issued shares |
|---|---|---|
| FINCONNECT (AUSTRALIA) PTY LTD | 20,611,785 | 16.49 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 14,786,745 | 11.83 |
| OCHOA PTY LTD | 9,620,000 | 7.70 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 7,408,287 | 5.93 |
| CITICORP NOMINEES PTY LIMITED | 4,311,661 | 3.45 |
| OCHOA PTY LTD <THE RODNEY HIGGINS SUPERANNUATION FUND> | 3,506,989 | 2.81 |
| NATIONAL NOMINEES LIMITED | 2,151,531 | 1.72 |
| MR RODNEY GORDON HIGGINS | 2,094,226 | 1.68 |
| SCJ PTY LIMITED <JERMYN FAMILY A/C> | 2,000,000 | 1.60 |
| CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 1,303,924 | 1.04 |
| BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 1,275,255 | 1.02 |
| PACIFIC CUSTODIANS PTY LIMITED <EMPLOYEE INCENTIVE TST> | 778,045 | 0.62 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 769,068 | 0.62 |
| MACREN PTY LTD <MACREN S/F A/C> | 681,986 | 0.55 |
| TM PADDY PTY LTD <MURRAY BALL FAMILY A/C> | 495,936 | 0.40 |
| BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 477,205 | 0.38 |
| MR ANDREW GEORGE KETTLE | 433,853 | 0.35 |
| EST DAVID MADDEN | 400,000 | 0.32 |
| MR PETER DAVID RITCHIE & MRS LEIGH MARGARET RITCHIE <RITCHIE FAM S/FD A/C> | 314,863 | 0.25 |
| T M PADDY PTY LTD <SUPERBALL FUND A/C> | 307,939 | 0.25 |
| | **73,729,298** | **58.98** |

## C. Substantial holders

Substantial holders in the Company are set out below:

| Ordinary Shares | Number held |
|---|---|
| Spheria Asset Management Pty Ltd | 24,726,708 |
| Commonwealth Bank of Australia* | 21,806,731 |
| R G Higgins and Ochoa Pty Ltd | 15,385,212 |
| Pinnacle Investment Management Group Limited | 6,939,466 |

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

## D. Voting rights

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

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

b. Options No voting rights.

# Corportate Directory

## Directors

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

## Chief Executive Officer

S R Mitchell

## Secretary

S W Stierli

## Executives

Chief Financial Officer
I J Parkes

General Manager, Distribution
D C Zammit

General Manager, Group Marketing
S Gervois

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

Chief Advice Officer
D M Thomas

General Manager, Human Resources
M J Pitton

General Manager, Technology
V C ten Krooden

## Notice of Annual General Meeting

The Annual General Meeting of Mortgage Choice Limited

will be held at:

Time: 10am
Date: 21 October 2020

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

(02) 8907 0444

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

(02) 8280 7111

Auditor
Deloitte Touche Tohmatsu
Chartered Accountants

Grosvenor Place
225 George Street
Sydney NSW 2000

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

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

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

Website address
www.mortgagechoice.com.au

Mortgage Choice