

RESULTS TIME



Mortgage Choice was established in 1992 with a vision of building a national network of ethical, credible and professional mortgage brokers who local communities could trust.

Today, we have sourced a home loan for well over 350,000 clients thanks to our network of hundreds of franchises that have access to an extensive panel of lenders. Our brokers empower clients by guiding them through the mortgage maze and the process of becoming a mortgage holder, without playing favourites. Importantly, we pay franchisees the same commission rate for the home loans they write, regardless of the rate paid by the lender selected by our clients.

A strong commitment to client convenience and our 'duty of care' is why many of our brokers now also access personal loans, commercial loans, asset finance and risk and general insurances.

Australia's largest independently-operated mortgage broker, Mortgage Choice has no balance sheet funding risk, and consistently delivers strong profits and attractive yields. We listed on the Australian Stock Exchange in 2004 and are a member of the Mortgage & Finance Association of Australia (MFAA).

Mortgage Choice holds an Australian Credit Licence no. 382869, issued by ASIC.

contents

- IFC** Corporate directory
- 1** Directors' report
- 15** Corporate governance statement
- 21** Financial report
- 62** Independent auditor's report to the members
- 64** Shareholder information



NOTICE OF ANNUAL GENERAL MEETING

THE ANNUAL GENERAL MEETING OF MORTGAGE CHOICE LIMITED WILL BE HELD AT:

MORTGAGE CHOICE LIMITED
LEVEL 10, 100 PACIFIC HIGHWAY
NORTH SYDNEY NSW 2060

TIME: 10.00 AM
DATE: 18 OCTOBER 2012

DIRECTORS

P D RITCHIE
CHAIRMAN

S J CLANCY

P G HIGGINS

R G HIGGINS

S C JERMYN

D E RALSTON

CHIEF EXECUTIVE OFFICER

M I RUSSELL

SECRETARY

D M HOSKINS

EXECUTIVES

S R MITCHELL
CHIEF FINANCIAL OFFICER

N C ROSE-INNES
GENERAL MANAGER, OPERATIONS

A J RUSSELL
GENERAL MANAGER,
PRODUCT AND DISTRIBUTION

S C DEHNE
CEO OF LOANKIT

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

PRICEWATERHOUSECOOPERS
CHARTERED ACCOUNTANTS
DARLING PARK TOWER 2
201 SUSSEX STREET
SYDNEY NSW 2000

SOLICITORS

MINTER ELLISON
AURORA PLACE, 88 PHILLIP 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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2012

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 2012, hereafter referred to as "Mortgage Choice", "the Mortgage Choice Group" or "the Group".

Directors

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

P D Ritchie
S J Clancy
P G Higgins
R G Higgins
S C Jermyn
D E Ralston

Principal activities

During the year the principal continuing activity of the Mortgage Choice Group was mortgage broking. This activity involves:

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

Dividends

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

A final ordinary dividend of \$8.396 million (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2011 on 24 August 2011 and paid on 19 September 2011.

An interim ordinary dividend of \$7.219 million (6.0 cents per fully paid share) was declared out of profits of the Company for the half-year ended 31 December 2011 on 22 February 2012 and paid on 19 March 2012.

A final ordinary dividend of \$8.422 million (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2012 on 23 August 2012 to be paid on 18 September 2012.

Review of operations

Operational results for the year

The core Mortgage Choice brokerage business saw an increase in the number of franchisees recruited in FY2012 as well as a strong increase in the level of approvals and settled loans despite subdued credit growth in the housing finance market over the period. This increase in approvals and settlements was spurred by a reduction in the cash rate of 50 basis points over November and December 2011 and a further reduction of 75 basis points over May and June 2012. The cash rate reductions coupled with intense competition among lenders led to an increased level of refinancing and first homebuyer enquiries in the Mortgage Choice brokerage business.

Mortgage Choice – residential, excluding LoanKit	2012	2011
Loans approved – \$m	10,144	9,527
Change	6.5%	(4.5%)
Loans settled – #	31,443	30,473
Change	3.2%	(10.6%)
Loans settled – \$m	8,725	8,319
Change	4.9%	(6.4%)

The Company's residential loan book grew by 5.2% to \$43.3bn. The Group's loan book, including the residential loan book of LoanKit and diversified lending, grew by 6.6% to \$45.1bn.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

During the year the Group continued to invest in its newer initiatives. LoanKit, a mortgage brokerage aggregation business purchased in November 2009, experienced an increase in the number of brokers utilising LoanKit software and aggregation services leading to increased settlements of approximately 188% as compared to FY2011. HelpMeChoose.com.au, a comparison website for health insurance as well as life insurance and home loans purchased in October 2010, continued to improve its lead generation activities and backend processes to attract a higher volume of visitors at a cheaper cost. This improvement resulted in a tripling of the gross profit per health insurance sale, the primary profit driver of this business, over the financial year. The year also saw the beginnings of our new financial planning business take shape with the team on track to deliver a pilot program in October 2012.

Financial results for the year

The profits for FY2012 reflect year on year growth in settlements as well as the Group's continued investment in its new businesses. The total investment in these diversified businesses before tax amounted to \$1.9m but the strong performance of the Mortgage Choice brokerage business during the year resulted in a limited reduction of 4.2% in the underlying result before tax.

The annual review of the historical trail book found that the run-off over the past year was less than expected and a positive adjustment to the profit and loss for the year was required to recognise the actual experience in the portfolio. In addition, the run-off assumptions used to value the future trailing commissions on the balance sheet were changed to reflect an extension of the current economic environment. These changes resulted in a \$15.1m adjustment to revenue and a \$5.9m adjustment before tax to the Group's profit for FY2012. Approximately 92% of the \$5.9m adjustment to pre-tax results arises from the change in forward assumptions.

The effect of the adjustment is summarised below.

Financial summary	2012 \$'000	2011 \$'000
Operating income		
Underlying operating income	141,997	134,125
Adjustment to receivable loan book valuation	15,051	35,381
Total operating income	157,048	169,506
Profit before tax		
Underlying result before tax	20,801	21,722
Adjustment to net loan book valuation	5,875	17,607
Total profit before tax	26,676	39,329

The Group will continue to review the assumptions used in estimating the future trailing commissions, as required in the Group's accounting policies, and recognise any change in net assets in the period in which it arises.

Strategy and plans for next year

Over the past three years Mortgage Choice has focused its strategy on broadening its customer proposition to introduce new revenue streams and on attracting new franchise owners into the network. This inward facing strategy was targeted at insulating the Group against the effect of any further economic downturn and reversing the negative trends caused by the GFC and lender commission cuts. While these initiatives remain important to the Group, Mortgage Choice is now turning its focus outwards towards business growth. It is time to ACT:

- Acquire greater market share in our core mortgage business
- Cross-sell our mortgage customers into our financial planning business
- Transition the Group into a diversified financial services and wealth solutions business

Over the next three years the Group will focus on acquiring increased market share through focused marketing and public relations campaigns, and sales and recruitment initiatives. The Group will introduce its mortgage customers to an irresistible consumer proposition offered by its new financial planning business. These initiatives will begin the transition of Mortgage Choice from a mortgage broker to a diversified financial services and wealth solutions business. Mortgage Choice's investment in LoanKit and HelpMeChoose.com.au will continue to play an important role in this transition by offering a wider net of customers and in the case of HelpMeChoose.com.au, a source of leads to feed both the mortgage broking business as well as the risk insurance offering of the financial planning business.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2012 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years,
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on Directors

<p>Peter Ritchie AO, BCom, FCPA Independent Non-Executive Chairman Chairman of Nomination and Remuneration Committees</p>	<p>Peter is Deputy Chairman of Seven Group Holdings Limited and Chairman of Reverse Corp Limited. He previously served as Managing Director of McDonald's Australia from 1974 to 1995 and as its Chairman from 1995 to 2001. Peter was a Director of Westpac Banking Corporation from 1993 to 2002 and Solution 6 Holdings from 2000 to 2002. Age 70.</p>
<p>Sean Clancy Dip Mkt Independent Non-Executive Director Member of Audit and Remuneration Committees</p>	<p>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 of the Sydney Swans Foundation, Chairman of Metropolis Inc. and Ambassador to Business Events Sydney. Age 52.</p>
<p>Peter Higgins Non-Executive Director Member of Audit Committee</p>	<p>Peter is co-founder of Mortgage Choice. He also is a Director of Technology Company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com. Having been successfully self-employed for over 25 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 52.</p>
<p>Rodney Higgins Non-Executive Director Member of Nomination and Remuneration Committees</p>	<p>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 57.</p>
<p>Steve Jermyn FCPA Independent Non-Executive Director Chairman of Audit Committee</p>	<p>Steve joined McDonald's Australia in 1984 and joined the Board of Directors in 1986. In June 1999, he was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. He retired from McDonald's Australia in 2005. Steve is also a Director of Reverse Corp Limited. Age 63.</p>
<p>Deborah Ralston PhD, FAICD, SFFin, FCPA Independent Non-Executive Director Member of Audit Committee</p>	<p>Deborah is Executive Director of the Australian Centre for Financial Studies and Professor of Finance at Monash University. She was formerly Pro Vice Chancellor at the University of Canberra and has also been Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Deborah is a former Director of Heritage Building Society. Age 59.</p>

The table below sets out the Directors' interests at 30 June 2012:

Director	Particulars of Directors' interests in share and options
P D Ritchie	350,125 ordinary shares
S J Clancy	50,000 ordinary shares
P G Higgins	822,939 ordinary shares
R G Higgins	15,226,215 ordinary shares
S C Jermyn	2,000,000 ordinary shares
D E Ralston	100,000 ordinary shares

Company Secretary

The Company Secretary is Mr David M Hoskins BCom, CPA, CSA. Mr Hoskins was appointed to the position of Company Secretary in 2000. Before joining Mortgage Choice he had experience in a variety of accounting and company secretarial functions, primarily in the finance and insurance industries.

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 2012, and the numbers of meetings attended by each Director were:

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

	Full meetings of Directors		Meetings of committees					
	A	B	Audit		Nomination		Remuneration	
			A	B	A	B	A	B
P D Ritchie	9	9	*	*	—	—	1	1
S J Clancy	8	9	3	3	*	*	1	1
P G Higgins	7	9	2	3	*	*	*	*
R G Higgins	7	9	*	*	—	—	1	1
S C Jermyn	8	9	3	3	*	*	*	*
D E Ralston	8	9	3	3	*	*	*	*

A = Number of meetings attended

B = Number of meetings held

* = Not a member of the relevant committee

Retirement, election and continuation in the office of Directors

In accordance with the Constitution, Steve Jermyn and Sean Clancy retire by rotation and, being eligible, offer themselves for re-election.

Remuneration report

The Directors are pleased to present the 2012 remuneration report which sets out remuneration information for the Company's Non-Executive Directors, Chief Executive Officer and other key management personnel (collectively KMP).

Directors and other key management personnel disclosed in this report

Name	Position
Directors	
Peter D Ritchie	Non-Executive Chairman
Sean J Clancy	Non-Executive Director
Peter G Higgins	Non-Executive Director
Rodney G Higgins	Non-Executive Director
Stephen C Jermyn	Non-Executive Director
Deborah E Ralston	Non-Executive Director
Other key management personnel	
Michael I Russell	Chief Executive Officer
Susan R Mitchell	Chief Financial Officer
Neill C Rose-Innes	General Manager, Operations
Andrew J Russell	General Manager, Product and Distribution
Simon C Dehne	CEO of LoanKit
Justin A Hanka	CEO of HelpMeChoose.com.au (to 28 November 2011)

Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board which has the primary responsibility for making recommendations to the Board on:

- Non-Executive Director fees;
- remuneration levels of the Chief Executive Officer; and
- the over-arching executive remuneration framework and operation of the incentive plan.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company. In doing this, the Remuneration Committee seeks advice from independent remuneration consultants (see page 8 below).

The Corporate Governance Statement provides further information on the role of this committee.

Non-Executive Director remuneration policy

Fees paid to the Chairman and the Non-Executive Directors take into account the demands made on, and the responsibilities of, the Directors. Initially the Board sought independent research material to ensure Non-Executive Directors fees, including those of the Chairman, were appropriate and in-line with market. Subsequently the fees have been reviewed annually by the Board. The Chairman and other Non-Executive Directors do not receive any short term cash incentives or share-based payments; nor do they receive additional payments for representation on Board committees.

Directors' fees

Shareholders at the General Meeting on 5 April 2004 set the maximum aggregate remuneration of the Board (excluding the Managing Director and any executive Director) at \$750,000.

The following annual fees (including super) applied during the period of this report:

	From 1 October 2010	From 1 July 2006 to 30 September 2010
Chairman	\$136,250	\$119,900
Other Non-Executive Directors	\$81,750	\$65,400

Retirement allowances for Directors

Non-Executive Directors do not receive retirement allowances. Superannuation contributions, as required under the Australian superannuation guarantee legislation, are paid on Non-Executive Directors' remuneration and are included in the fees above.

Executive remuneration policy and framework

In determining executive remuneration, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent
- aligned to the company's strategic and business objectives and the creation of shareholder value;
- transparent, and
- acceptable to shareholders.

The executive remuneration framework has three components:

- base pay and non-cash benefits, including superannuation
- short term performance incentive, and
- medium- and long-term incentives through participation in the Mortgage Choice Executive Performance Option Plan (EPOP) and the Performance Share Plan (PSP).

The remuneration policies described below apply to the senior executive officers and senior managers ('executives'). All KMPs other than Directors would be classified as either a senior executive officer or a senior manager and would therefore adhere to these policies.

Base pay and non-cash benefits

An executive's base pay comprises a fixed cash salary plus superannuation. Executives have an opportunity to salary sacrifice amounts from their fixed salary towards a series of prescribed benefits plus any associated fringe benefits tax.

Executives are offered a competitive base pay that is reviewed annually in conjunction with external benchmarks to ensure it remains competitive with the market. An executive's pay is also reviewed on promotion. There are no guaranteed base pay increases in any executive contracts. Executives do not receive non-cash benefits in addition to base pay except in isolated circumstances as approved by the Board or the Remuneration Committee.

Short-term performance incentives

Should the Group achieve the profit target set by the Board each year, a pool of short-term incentive funds (STI) is made available for allocation during the annual review. Any amounts awarded as STI are payable in cash following the signing of the annual report each year. Using a profit target ensures variable reward is available only when value has been created for shareholders and when this value has been achieved in a manner consistent with the business plan. In addition, some executives have a target STI opportunity based solely on achieving a key performance indicator (KPI) related to the accountabilities of the role and its impact on the organisation's or business unit's performance. These KPI's are set annually between the executive and the Chief Executive Officer.

For executives, the maximum STI opportunity ranges from 52% of cash salary for the Chief Executive Officer to 25% to 32% of cash salary for other executives. From time to time, bonuses may be paid outside this structure in relation to special projects or in special circumstances. No such special bonuses were paid in the period covered by this report.

Medium and long-term incentives

Medium and long-term incentives are provided in the form of share-based payments through the Executive Performance Option Plan (EPOP) and the Performance Share Plan (PSP); see pages 5-9 for further information.

Executive Performance Option Plan (EPOP)

The Executive Performance Option Plan may be offered on an annual basis to eligible executives as determined by the Board. The details of each offer may differ as to the particulars, especially with regard to performance criteria, performance period and service criteria. Participation in the EPOP provides one component of the long-term incentive available to the selected executives within their aggregate remuneration package. At the present time this is a legacy plan as options have not been issued under the plan since May 2009.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and have an exercise price based on the market value of the Company's shares at the time of offer. Market value will be the trade-weighted average price of the Company's shares over the one-week period immediately preceding the date of offer.

The options offered to executives under the EPOP are subject to performance conditions set by the Board. In the years ending 30 June 2012, no options were offered.

The rules of the EPOP permit the Company to issue new shares or to purchase shares on-market for the purposes of satisfying the exercise of options.

Any options which do not become exercisable following the application of the performance condition and vesting scale will lapse. An option that has become exercisable but is not exercised will lapse on the earlier of:

- ten years after the date of offer;
- three months, or such other period determined by the Board, after the participant ceases employment for a reason other than a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, or any other reason determined by the Board); and
- twelve months, or such other period determined by the Board, after the participant ceases employment for a 'qualifying reason'.

When a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason', any options that have not become exercisable will lapse. However, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, options will vest on a pro-rata basis or in their entirety for certain senior executives.

If the Board determines that a participant has acted fraudulently or dishonestly, has committed an act of 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 options held by the participant will lapse.

Offers made under the plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

Performance Share Plan (PSP)

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

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

Vesting criteria

Up to 30 June 2009, grants under the PSP vested based on performance criteria utilising a relative total shareholder return (TSR) calculation given certain service requirements were also met. In response to the need to retain and incentivise talented staff in the economic aftermath of the GFC when there was so much uncertainty in the economic climate, grants under the PSP dropped performance criteria as a vesting requirement. In the financial years 2010 and 2011, grants under the PSP vested solely on service requirements over a four year period.

At the November 2011 Annual General Meeting (AGM) the Company received a "no" vote on its FY2011 remuneration report in excess of the 25% hurdle for a "first strike." The company did not receive any specific feedback at the AGM on its remuneration practices. However, in response, the Company redesigned its share-based incentive plans in conjunction with a remuneration specialist. In the February 2012, the grants made under the PSP, which comprise the grants for the 2012 financial year, the Company reintroduced performance hurdles for 75% of the shares issued. These hurdles require the achievement of cash EPS targets or the achievement of TSR hurdles relative to a comparator group to be met over a three year period for the shares to vest.

Details of FY2009 grant

Shares granted in FY2009 vest at the end of a three year period based on the performance of the Company's TSR relative to that of a comparator group established at offer date. Vesting is also dependent on continued employment to the end of the period. Partial vesting is allowed if a base performance hurdle is achieved.

For example should Mortgage Choice's TSR for the three year period exceed the 51st percentile of the TSR of the comparator group, shares vest in accordance with the following vesting scale:

Company performance (TSR percentile ranking)	Percentage of TSR based performance shares granted
At or below the 50th percentile	0%
At the 51st percentile	52%
75th percentile or above	100%

Between the 51st percentile and 75th percentiles, an additional 2% of the TSR based performance shares vest for every percentile increase in TSR ranking.

The 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 period. The Company's TSR is compared to that of a comparator group comprised of selected S&P ASX Top 300 companies. The comparator group excludes mining and resource companies, as well as property related trusts or companies. The market capitalisation of the companies in the comparator group is within an approximate range of 40% to 200% of the market capitalisation of the Company.

The initial comparator group for the year ended 30 June 2009 comprised: Allco Finance Group Limited, Austin Engineering Limited, ASG Group Limited, Australian Vintage Limited, Avexa Limited, Amazing Loans Limited, Becton Property Group, Biota Holdings Limited, Bravura Solutions Limited, Codan Limited, Costaexchange Limited, Clean Seas Tuna Limited, Customers Limited, Cedar Woods Properties Limited, Coote Industrial Limited, DKN Financial Group Limited, DWS Advanced Business Solutions Limited, Dyesol Limited, Eservglobal Limited, Forest Place Group Limited, Finbar Group Limited, Flexigroup Limited, GRD Limited, Gazal Corporation Limited, Infomedia Limited, Keybridge Capital Limited, Maryborough Sugar Factory Limited, Orotongroup Limited, PRO Medicus Limited, Quantum Energy Limited, RCR Tomlinson Limited, Regional Express Holdings Limited, Resource Generation Limited, Retail Food Group Limited, RP Data Limited, Specialty Fashion Group Limited, SP Telemedia Limited, Sirtex Medical Limited, Structural Systems Limited, Southern Cross Electrical Engineering Limited, Tox Free Solutions Limited, Thinksmart Limited, Universal Biosensors Inc., United Overseas Australia Limited, Vision Group Holdings Limited, Viridis Clean Energy Group, VDM Group Limited, Webjet Limited, Wilson HTM Investment Group Limited, Wattyl Limited.

If any of the companies in the comparator group ceases to exist in its current form for any reason other than its liquidation, or if the Board determines in its discretion that a company should no longer be in the comparator group because of an anomaly, distortion or other event that is not directly related to the financial performance of that company, that company will cease to form part of the comparator group.

Details FY2010 and FY2011 grants

Shares offered in FY2010 and FY2011 vest over a four year period with a third vesting two years into the period, a third three years in and the remaining third vesting at year four. The criterion for vesting is based on continuous service over the period to the vesting date. Detailed vesting dates are shown for each tranche on page 11.

Details FY2012 grant

Shares granted in FY2012 are divided into three tranches each with its own vesting criteria. The two largest tranches (which comprise 75% of the year's grant) vest at the end of a three year period based on performance criteria as described below.

FY2012 grant first tranche

Shares offered in the first FY2012 tranche vest over a three year period with a third vesting one year into the period, a third two years in and the remaining third vesting at year three. The criterion for vesting is based on continuous service over the period to the vesting date. Detailed vesting dates are shown for each tranche on page 11.

FY2012 grant second tranche

The second tranche vests based on achieving a target compound growth in cash EPS (as declared to the market). The shares will vest at the end of the three year performance period if the Company's annual growth in cash based EPS on a compounded basis for the three year period exceeds 2%. Above 2%, shares will vest in accordance with the following vesting scale:

Company compound annual growth in Cash EPS	Percentage of EPS based performance shares granted
Below 2%	0%
At 2%	35%
At or above 5%	100%

Between 2 percent and 5 percent, the percentage of EPS based performance shares to vest will increase from 35% to 100% as calculated on a straight line basis.

FY2012 grant third tranche

The third tranche will vest based on a target TSR performance relative to a comparator group at the end of a three year period. Should the Company's TSR for the three year period exceed the 40th percentile of the TSR of the comparator group, shares vest in accordance with the following vesting scale:

Company performance (TSR percentile ranking)	Percentage of TSR based performance shares granted
Below the 40th percentile	0%
At the 40th percentile	25%
90th percentile or above	100%

Between the 25th percentile and 90th percentiles, the TSR based performance shares will vest on a straight line basis.

The 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 period. The Company's TSR is compared to that of a comparator group comprised of selected listed companies included within ASX Financials with a market capitalisation of less than \$1 billion but more than \$40 million at 30 January, 2012. The comparator group excludes property related trusts or companies.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

The initial comparator group for the PSP offers made in FY2012 comprises: Perpetual Limited, SFG Australia Limited, FKP Property Group, Peet Limited, NIB Holdings Ltd/Australia, Magellan Financial Group Limited, FlexiGroup Limited/Australia, Cedar Woods Properties Limited, BT Investment Management Limited, Finbar Group Limited, United Overseas Australia Limited, ClearView Wealth Limited, Austbrokers Holdings Limited, Euroz Limited, MyState Limited, The Trust Co Limited, Servcorp Limited, IMF Australia Limited, Wide Bay Australia Limited, Bell Financial Group Limited, Forest Place Group Limited, Sunland Group Limited, Countplus Limited, RHG Limited, Equity Trustees Limited, Devine Limited, K2 Asset Management Holdings Limited, Hunter Hall International Limited, AVJennings Limited, Payce Consolidated Limited, HFA Holdings Limited, Treasury Group Limited, Phileo Australia Limited, Homeloans Limited, CIC Australia Limited, Ozgrowth Limited, ThinkSmart Limited, Lifestyle Communities Limited, InvestorFirst Limited, Centrepoint Alliance Limited, ASF Group Limited, Plan B Group.

If any of the companies in the comparator group ceases to exist in its current form for any reason other than its liquidation, or if the Board determines in its discretion that a company should no longer be in the comparator group because of an anomaly, distortion or other event that is not directly related to the financial performance of that company, that company will cease to form part of the comparator group.

PSP features applicable to all grants

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 Company. 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 attaching 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 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.

Use of remuneration consultants

During the year ending 30 June 2012, the Company's Remuneration Committee employed the services of Guerdon Associates to review its existing remuneration policies and to provide recommendations in respect of short-term and long-term incentive plan design for executives, including KMP, as well as senior managers.

Under the terms of the engagement, Guerdons provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001 (Cth)* and was paid \$40,500 for these services. Guerdons has confirmed that the above recommendations have been made free from undue influence by members of the group's key management personnel.

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

- Guerdons was engaged by, and reported directly to, the chair of the Remuneration Committee
- The agreement for the provision of remuneration consulting services was executed by the chair of the Remuneration Committee under delegated authority of the Board
- The report containing the remuneration recommendations was provided by Guerdons directly to the chair of the Remuneration Committee; and
- Guerdons was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, Guerdons was not permitted to provide any member of management with a copy of their draft or final remuneration recommendations.

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

Performance of Mortgage Choice Limited

Payments made under the STI plan are conditional upon the Company achieving a pre-determined profit target. A component of the grants made under PSP in FY2012 is conditional on EPS growth. The following table lists Mortgage Choice Limited's earnings per share (EPS):

Year	EPS (cents per share)
2008	16.4
2009	22.6
2010	19.7
2011	22.9
2012	15.4

Grants under the PSP, in FY2009 and a component of grants made under PSP in FY2012 are conditional on the total shareholder return (TSR) of the Company over a three year period as compared to 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 value of the investment for each period:

Year	TSR
2008	-73%
2009	41%
2010	24%
2011	21%
2012	14%

Details of remuneration

The following tables detail remuneration received for the 2011 and 2012 financial years by the Directors and other key management personnel in place during the year ending 30 June 2012.

2012	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary	STI	Non-monetary benefits	Long service leave	Termination benefits	Performance shares	
Name	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors							
P D Ritchie <i>Chairman</i>	125,000	-	-	11,250	-	-	136,250
S J Clancy	75,000	-	-	6,750	-	-	81,750
P G Higgins	75,000	-	-	6,750	-	-	81,750
R G Higgins	75,000	-	-	6,750	-	-	81,750
S C Jermyn	75,000	-	-	6,750	-	-	81,750
D E Ralston	75,000	-	-	6,750	-	-	81,750
Other key management personnel:							
M I Russell <i>Chief Executive Officer</i>	553,883	286,915	29,259	15,775	7,302	-	1,112,942
S R Mitchell	288,949	91,392	384	15,775	3,969	-	464,502
N C Rose-Innes	250,433	80,000	384	15,775	5,532	-	411,028
A J Russell	252,543	76,800	8,213	15,775	824	-	378,019
S C Dehne	199,710	48,925	-	15,775	1,948	-	292,785
J A Hanka <i>(from 1/7/11 to 23/2/12)</i>	124,699	-	-	10,112	(414)	-	134,397

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

2011 Name	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary \$	STI \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Performance shares \$	
Non-Executive Directors								
P D Ritchie <i>Chairman</i>	121,250	–	–	10,913	–	–	–	132,163
S J Clancy	71,250	–	–	6,413	–	–	–	77,663
P G Higgins	71,250	–	–	6,413	–	–	–	77,663
R G Higgins	71,250	–	–	6,413	–	–	–	77,663
S C Jermyrn	71,250	–	–	6,413	–	–	–	77,663
D E Ralston	71,250	–	–	6,413	–	–	–	77,663
Other key management personnel:								
M I Russell <i>Chief Executive Officer</i>	563,597	286,915	14,643	15,199	2,944	–	210,425	1,093,723
S R Mitchell	270,662	89,600	–	15,199	1,671	–	55,557	432,689
N C Rose-Innes	244,583	76,299	–	15,199	2,406	–	62,623	401,110
A J Russell <i>(from 2/12/10 to 30/6/11)</i>	138,659	41,819	–	8,866	–	–	14,963	204,307
S C Dehne	162,183	32,000	–	15,199	507	–	22,798	232,687
J A Hanka <i>(from 1/10/10 to 30/6/11)</i>	144,987	40,447	–	10,133	414	–	–	195,981

The relative proportions of remuneration that are linked to fixed remuneration and performance based criteria are as follows:

Name	Fixed/ service based remuneration			At risk/performance based remuneration		
	Fixed remuneration	Share Based	Total	STI	Share based	Total
Other key management personnel of Group						
M I Russell	54%	18%	72%	26%	2%	28%
S R Mitchell	66%	13%	79%	20%	1%	21%
N C Rose-Innes	65%	13%	78%	20%	2%	22%
A J Russell	72%	5%	77%	21%	3%	23%
S C Dehne	74%	8%	82%	17%	1%	18%
J A Hanka	100%	0%	100%	0%	0%	0%

Service agreements

On appointment to the Board, all Non-Executive Directors 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 Chief Executive Officer M I Russell and other key management personnel are set out in their respective letters of employment. The employment terms do not prescribe the duration of employment for executives except for the Chief Executive Officer who has a set term of employment ending April 2016. The periods of notice required to terminate employment are set out below:

- The employment contract of Mr M I Russell is terminable by either the Company or the executive with six months notice.
- The employment contracts of Messrs Rose-Innes and A J Russell and Ms Mitchell are terminable by either the Company or the executive with three months notice.
- The employment contract of Mr Dehne is terminable by either the Company or the executive with four weeks notice.

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

Share-based compensation

The terms and conditions of each offer of performance shares affecting remuneration in this or future reporting periods are as follows:

Grant date	Vesting date	Value per performance share at grant date*	Performance achieved	% Vested
31 August 2008	31 August 2011	\$1.00	>75th percentile	100%
9 December 2009	31 August 2011	\$1.24	service based	n/a
9 December 2009	31 August 2012	\$1.24	service based	n/a
9 December 2009	31 August 2013	\$1.24	service based	n/a
20 September 2010	3 September 2012	\$1.16	service based	n/a
20 September 2010	3 September 2013	\$1.17	service based	n/a
20 September 2010	3 September 2014	\$1.19	service based	n/a
24 December 2010	1 December 2011	\$1.37	service based	n/a
16 February 2012	14 September 2012	\$1.26	service based	n/a
16 February 2012	13 September 2013	\$1.26	service based	n/a
16 February 2012	12 September 2014	\$1.26	service based	n/a
16 February 2012	12 September 2014	\$1.26	to be determined	n/a
16 February 2012	12 September 2014	\$0.63	to be determined	n/a

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

Details of performance shares in the Company provided as remuneration to other key management personnel are set out below. Further information on the performance shares is set out in note 32 to the financial statements.

Name	Number of performance shares granted during the year	Value of performance shares at grant date*	Number of performance shares vested during the year	Number of performance shares lapsed during the year	Value at lapse date**
Other key management personnel					
M I Russell	212,100	216,979	79,750	–	–
S R Mitchell	65,850	67,365	20,817	–	–
N C Rose-Innes	57,650	58,976	54,383	–	–
A J Russell	55,350	56,623	20,000	–	–
S C Dehne	30,100	30,793	9,017	–	–

* 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 value at lapse date of performance shares that lapsed during the year because a vesting condition was not satisfied is calculated assuming the performance conditions were satisfied.

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 above. Fair values 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.

Shares provided on vesting of performance share entitlements

Details of shares issued in the company as a result of the vesting of performance share entitlements during the year ended 30 June 2012 are set out below:

Name	Vesting date	Number of ordinary shares issued on vesting of share rights	Value at vesting date*
Other key management personnel			
M I Russell	31 August 2011	79,750	103,675
S R Mitchell	31 August 2011	20,817	27,062
N C Rose-Innes	31 August 2011	54,383	70,698
A J Russell	1 December 2011	20,000	26,800
S C Dehne	31 August 2011	9,017	11,722

* The value at vesting date of shares that were granted as part of remuneration and vested during the year is the closing market price on the day of vesting.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

Details of remuneration: cash bonuses, performance shares and options

For each cash bonus and grant of performance shares and options in the tables on pages 9-12, the percentage of the available grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service or performance criteria is set out below. The performance shares and options vest at the end of a set period of up to four years, providing vesting conditions are met. No performance shares or options will vest if the conditions are not satisfied, hence the minimum value of the performance shares and options yet to vest is nil. The maximum value of the performance shares and options yet to vest has been determined as the amount of the grant date fair value of the performance shares and options that is yet to be expensed.

Name	STI		Performance shares and options					
	Paid %	Forfeited %	Financial year granted	Vested %	Forfeited %	Financial years in which shares and options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
M I Russell	100	–	2012	–	–	30/6/2015	Nil	147,675
			2012	–	–	30/6/2014	Nil	17,050
			2012	–	–	30/6/2013	Nil	8,089
			2011	–	–	30/6/2015	Nil	52,107
			2011	–	–	30/6/2014	Nil	37,312
			2011	–	–	30/6/2013	Nil	8,549
			2010	–	–	30/6/2014	Nil	31,003
			2010	–	–	30/6/2013	Nil	6,150
			2010	100	–	–	–	–
S R Mitchell	100	–	2012	–	–	30/6/2015	Nil	45,847
			2012	–	–	30/6/2014	Nil	5,295
			2012	–	–	30/6/2013	Nil	2,511
			2011	–	–	30/6/2015	Nil	15,864
			2011	–	–	30/6/2014	Nil	11,353
			2011	–	–	30/6/2013	Nil	2,607
			2010	–	–	30/6/2014	Nil	8,093
			2010	–	–	30/6/2013	Nil	1,605
			2010	100	–	–	–	–
N C Rose-Innes	100	–	2012	–	–	30/6/2015	Nil	40,139
			2012	–	–	30/6/2014	Nil	4,634
			2012	–	–	30/6/2013	Nil	2,198
			2011	–	–	30/6/2015	Nil	13,519
			2011	–	–	30/6/2014	Nil	9,674
			2011	–	–	30/6/2013	Nil	2,215
			2010	–	–	30/6/2014	Nil	8,041
			2010	–	–	30/6/2013	Nil	1,595
			2010	100	–	–	–	–
2009	100	–	–	–	–	–		
A J Russell	100	–	2012	–	–	30/6/2015	Nil	38,536
			2012	–	–	30/6/2014	Nil	4,449
			2012	–	–	30/6/2013	Nil	2,110
			2011	100	–	–	–	–
S C Dehne	100	–	2012	–	–	30/6/2015	Nil	20,957
			2012	–	–	30/6/2014	Nil	2,419
			2012	–	–	30/6/2013	Nil	1,148
			2011	–	–	30/6/2015	Nil	6,046
			2011	–	–	30/6/2014	Nil	4,330
			2011	–	–	30/6/2013	Nil	983
			2010	–	–	30/6/2014	Nil	3,505
			2010	–	–	30/6/2013	Nil	695
			2010	100	–	30/6/2012	–	–

Shares under option

Unissued ordinary shares of Mortgage Choice Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price	Number under option
1 May 2009	1 May 2019	\$0.76	2,500,000

No option holder has any right under the options to participate in any other share issue of the Company or any other Group entity.

Shares provided on exercise of remuneration options

No options issued to key management personnel were exercised during the year.

Insurance of Directors and Officers

Insurance premiums were paid for the year ended 30 June 2012 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, the Chief Financial Officer and Company Secretary. The indemnity is subject to the restrictions prescribed in the *Corporations Act 2001 (Cth)*. 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 (Cth)* 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 (Cth)*.

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.

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 (Cth)*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001 (Cth)* 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*.

DIRECTORS' REPORT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

	Consolidated	
	2012 \$	2011 \$
Non-audit services		
<i>Audit-related services</i>		
PricewaterhouseCoopers Australian firm:		
Other assurance services	-	9,000
<i>Total remuneration for audit-related services</i>	-	9,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	23,900	23,900
Other tax services	92,045	10,645
<i>Total remuneration for taxation services</i>	115,945	34,545
<i>Total remuneration for non-audit services</i>	115,945	43,545

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on page 20.

Rounding

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001 (Cth)*.

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



Peter Ritchie
Director

Sydney
23 August 2012

CORPORATE GOVERNANCE STATEMENT

15

FOR THE YEAR ENDED 30 JUNE 2012

Mortgage Choice Limited has in place corporate governance practices to ensure the Company and the Group are effectively directed and managed, risks are monitored and assessed and appropriate disclosures are made.

A statement of the Company's full corporate governance practices is set out below. The Company considers that it complies with the August 2007 ASX Corporate Governance Principles and Recommendations (including 2010 Amendments to the extent that they apply to the Company's financial year ended 30 June 2012).

Principle 1: Lay solid foundations for management and oversight

The Board acts on behalf of shareholders and is accountable to shareholders for the overall direction, management and corporate governance of the Company.

The Board is responsible for:

- overseeing the Company, including its control and accountability systems;
- appointing and removing the Chief Executive Officer;
- monitoring the performance of the Chief Executive Officer;
- monitoring senior management's implementation of strategy, and ensuring appropriate resources are available;
- reporting to shareholders;
- providing strategic advice to management;
- approving management's corporate strategy and performance objectives;
- determining and financing dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks and controls are in place;
- reviewing and overseeing the implementation of the Company's corporate code of conduct and code of conduct for Directors and senior executives;
- approving charters of Board committees;
- monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies; and
- monitoring and ensuring compliance with best practice corporate governance requirements.

Responsibility for day-to-day management and administration of the Company is delegated by the Board to the Chief Executive Officer and the executive team.

Principle 2: Structure the Board to add value

The Board comprises two Non-Executive Directors and four independent Non-Executive Directors including the Chairman Peter Ritchie, Steve Jermyn and Deborah Ralston, who were appointed as Non-Executive Directors in the period prior to the Company's listing on the ASX, and Sean Clancy, who was appointed in May 2009. These individuals bring a long history of public company, operational and franchising experience with them and assist in overseeing the corporate governance of the Company.

The Board operates in accordance with the broad principles set out in its Charter, which is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Board size, composition and independence

The Charter states that:

- there must be a minimum of five Directors and a maximum of seven Directors;

CORPORATE GOVERNANCE STATEMENT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

- the Board must comprise:
 - a majority of independent Non-Executive Directors;
 - Directors with an appropriate range of skills, experience and expertise;
 - Directors who can understand and competently deal with current and emerging business issues; and
 - Directors who can effectively review and challenge the performance of management and exercise independent judgement;
- the Nomination Committee is responsible for recommending candidates for appointment to the Board; and
- each Director is appointed by a formal letter of appointment setting out the key terms and conditions of their appointment to ensure that each Director clearly understands the Company's expectations of him or her.

Directors' independence

The Board Charter sets out specific principles in relation to Directors' independence. These state that an independent Non-Executive Director is one who is independent of management and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

All Directors are required to complete an independence questionnaire.

Independent professional advice

Board committees and individual Directors may seek independent external professional advice for the purposes of proper performance of their duties.

Performance assessment

The performance of the Board, the Directors and key executives is reviewed annually. The Nomination Committee is responsible for reviewing:

- the Board's role;
- the processes of the Board and Board committees;
- the Board's performance; and
- each Director's performance before the Director stands for re-election.

The process for performance evaluation of the Board, its committees and individual Directors, and key executives that has been adopted by the Board is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

A review of the Board was conducted by the Chairman of the Nomination Committee in concert with the Company Secretary during the financial year ended 30 June 2012.

Board committees

Mortgage Choice has three Board committees comprising the Remuneration Committee, the Audit Committee and the Nomination Committee. These committees serve to support the functions of the Board and will make recommendations to Directors on issues relating to their area of responsibility.

The Nomination Committee

The objective of the Nomination Committee is to help the Board achieve its objective of ensuring the Company has a Board of an effective composition of skill, diversity, size and commitment to adequately discharge its responsibilities and duties. The Nomination Committee is responsible for evaluating the Board's performance. The Nomination Committee comprises Peter Ritchie and Rodney Higgins.

As a general matter and without limiting the responsibilities of the Nomination Committee in identifying and considering potential candidates, the Nomination Committee believes it is in the best interests of the Company that candidates be independent of material suppliers to the Company, its subsidiaries or clients (including financial institutions).

The Nomination Committee charter is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Principle 3: Promote ethical and responsible decision making

Codes of conduct

The Company has adopted a corporate code of conduct setting out its legal and other obligations to all legitimate stakeholders including shareholders, franchisees, employees, customers and the community.

The Company has also adopted a code of conduct for Directors and senior executives setting out required standards of behaviour, for the benefit of all shareholders. The purpose of this code of conduct is to:

- articulate the high standards of honesty, integrity, ethical and law-abiding behaviour expected of Directors and senior executives;
- encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including franchisees, employees, customers, suppliers and creditors);
- guide Directors and senior executives as to the practices thought necessary to maintain confidence in the Company's integrity; and
- set out the responsibility and accountability of Directors and senior executives to report and investigate any reported violations of this code or unethical or unlawful behaviour.

The Company requires that its Directors and senior executives adhere to a share trading policy that restricts the purchase and sale of Company securities to three six-week periods following the release of the half-yearly and annual financial results to the market, and the Annual General Meeting.

Copies of the Corporate Code of Conduct, the Code of Conduct for Directors and Senior Executives and the Share Trading Policy are available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Diversity policy

The Company believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation. As a result the Company has developed a diversity policy. It enables the Company to:

- recruit the right people from a diverse pool of talented candidates;
- make more informed and innovative decisions, drawing on the wide range of ideas, experiences, approaches and perspectives that employees from diverse backgrounds, and with differing skill sets, bring to their roles; and
- better represent the diversity of all our stakeholders

The Company is committed to achieving the goals of:

- (a) providing access to equal opportunities at work based on merit; and
- (b) fostering a corporate culture that embraces and values diversity.

We are an equal opportunity employer and welcome people from a diverse set of backgrounds.

Mortgage Choice has historically displayed a commitment to gender diversity through policies that encourage participation by women in all levels of the business. Examples of these are:

- Paid parental leave
- Flexible work practices including the promotion of part time female employees to senior roles.
- Awareness in all employees of their rights and responsibilities in regards to fairness, equity and respect for all aspects of diversity.

The diversity policy includes requirements for the Board to establish measurable objectives for achieving gender diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

Measurable objectives for achieving gender diversity and the progress toward those objectives are as follows:

- Appoint an executive responsible for achieving gender diversity. The Head of Human Resources has assumed responsibility for this function.
- Strive to maintain a fair and balanced level of gender representation in the overall Mortgage Choice workforce. The percentage of women in the Mortgage Choice workforce currently stands at 54%.
- Subject to vacancies and circumstances, strive to maintain a fair and balanced level of gender representation in the Senior Management Team. Currently 45% of the Senior Management Team are women.
- Subject to vacancies and circumstances, increase female representation on the Board of Directors. Currently one of the six Directors on the Board is a woman.
- Actively encourage the representation of women in senior executive roles through participation in the Talent Management program. Currently 50% of participants in the Talent Management program are women.
- Increase the opportunities for women to advance in the organisation through the establishment of a Leadership Program. The program is expected to commence in the 2012/13 financial year.

A copy of the Diversity Policy is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

CORPORATE GOVERNANCE STATEMENT CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

Principle 4: Safeguard integrity in financial reporting

The Audit Committee

The Audit Committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to:

- financial reporting;
- the application of accounting policies;
- business policies and practices;
- legal and regulatory compliance; and
- internal risk control and management systems.

The Audit Committee comprises Steve Jermyn (Chairman), Sean Clancy, Peter Higgins and Deborah Ralston. The objective of the Audit Committee is to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process; and
- provide a forum for communication between the Board and senior financial and compliance management.

The Audit Committee charter is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

External auditor

The Company has adopted procedures for the selection and appointment of the external auditor which are available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

The Audit Committee will regularly review the performance of the external auditor and consider any ongoing appointment.

The external auditor should rotate the senior audit partner and the audit review partner every five years with suitable succession planning to ensure consistency.

The external auditor should not place itself in a position where its objectivity may be impaired or where a reasonable person might conclude that its objectivity has been impaired. This requirement also applies to individual members of an audit team. The credibility and integrity of the financial reporting process is paramount. The Company has adopted guidelines on external auditor independence. These guidelines help to ensure a consistent approach to the appointment and review of external auditors.

The Company will not give work to the external auditor likely to give rise to a 'self review threat' (as defined in Australian Professional and Ethical Standards APES110, The Institute of Chartered Accountants in Australia and CPA Australia). It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee.

The external auditor is requested to attend the Annual General Meeting of the Company.

Principle 5: Make timely and balanced disclosure

Continuous disclosure

The Company has adopted a market disclosure protocol. The objective of this protocol is to:

- ensure the Company immediately discloses information that a reasonable person would expect to have a material effect on the price of the Company's securities to ASX in accordance with the ASX Listing Rules and the *Corporations Act 2001 (Cth)*;
- ensure officers and employees are aware of the Company's continuous disclosure obligations; and
- establish procedures for:
 - the collection of all potentially price-sensitive information;
 - assessing if information must be disclosed to ASX under the ASX Listing Rules or the *Corporations Act 2001 (Cth)*;
 - releasing to ASX information determined to be price-sensitive information and to require disclosure; and
 - responding to any queries from ASX (particularly queries under Listing Rule 3.1B).

The protocol is carried out through a Market Disclosure Committee comprised of management representatives. The Market Disclosure Committee is responsible for:

- ensuring compliance with continuous disclosure obligations;
- establishing a system to monitor compliance with continuous disclosure obligations and this protocol;
- monitoring regulatory requirements so that this protocol continues to conform with those requirements;
- monitoring movements in share price and share trading to identify circumstances where a false market may have emerged in company securities; and
- making decisions about trading halts.

All relevant information provided to the ASX will be posted immediately on the Company's website, www.MortgageChoice.com.au, in compliance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)* and ASX Listing Rules.

Principle 6: Respect the rights of shareholders

Communication to shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. The Board will:

- communicate effectively with shareholders;
- give shareholders ready access to balanced and understandable information about the Company and its corporate goals; and
- make it easy for shareholders to participate in general meetings.

Information is communicated to shareholders through ASX announcements, the Company's annual report, the Annual General Meeting, half and full year results announcements and the Company's website, www.MortgageChoice.com.au.

The Board has adopted a communications strategy to facilitate and promote effective communication with shareholders and encourage participation at general meetings. Arrangements the Company has to promote communication with shareholders are set out in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Principle 7: Recognise and manage risk

The Company has adopted and endorsed a compliance policy. The policy is a commitment to:

- promote a culture of compliance throughout the Company and franchise network;
- create an understanding of the relevant laws at all levels;
- minimise the possibility of a contravention of the law and manage any legal risk;
- enhance the Company's corporate image and customer service; and
- market, promote and sell the Company's services in a way that is competitive, ethical, honest and fair, and in compliance with the law.

The Company has developed and implemented a compliance program. The aim of the program is to promote a culture of compliance through a number of measures including staff and franchise network training, compliance procedures, support systems and the appointment of staff responsible for compliance.

The centrepiece of the program is a web based compliance education and evaluation tool. A self paced system, it covers the key legislative and regulatory obligations applicable to the business. Each major regulatory area (Trade Practices, Privacy, Equal Opportunity, Occupational Health and Safety, Technology, Franchising, National Consumer Credit Protection Act) is covered. All staff and the Board are required to complete all modules and must repeat the program at prescribed intervals. The program has also been rolled out to the franchise network.

The Company expects its employees, franchisees and representatives to actively support its compliance program. It is each employee, franchisee and representative's responsibility to make use of the training systems and support offered by the Company. Non-compliance with the law or failure to comply with the compliance program will not be tolerated and could result in disciplinary action.

In order to comply with the Australian standard for risk management, the Company has initiated a corporate risk management plan.

In fundamental terms, this process involves:

- analysing all aspects of the business to determine what operational risks are faced, either on a continuous or isolated basis;
 - having determined these risks, assessing each of them to allocate a rating based upon the likelihood of occurrence and consequence of occurrence;
 - determining what control measures are in place to eliminate or reduce the identified risk – this leads to allocating each risk a rating, all of which is recorded in a risk register; and
 - executive management then make decisions as to how each risk is to be handled i.e. avoided, managed, transferred or accepted.
- The Risk Register is a dynamic document that changes as business operations vary, resulting in new risks.

Management has reported to the Board that risk management and internal control systems effectively manage the Company's material business risks.

Corporate reporting

The Chief Executive Officer and Chief Financial Officer have certified that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

Principle 8: Remunerate fairly and responsibly

The Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors and senior management team. The Remuneration Committee comprises Peter Ritchie, Rodney Higgins and Sean Clancy.

The objective of the Remuneration Committee is to help the Board achieve its objective of ensuring the Company:

- has coherent remuneration policies and practices to attract and retain executives and Directors who will create value for shareholders;
- observes those remuneration policies and practices; and
- fairly and responsibly rewards executives and other employees having regard to the performance of the Company, the performance of the executive or employee and the general and specific remuneration environment.

Non-Executive Directors are not entitled to retirement benefits with the exception of statutory superannuation.

The Remuneration Committee charter is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Mortgage Choice Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mortgage Choice Limited and the entities it controlled during the period.

A handwritten signature in cursive script that reads 'Maria Martin'.

Maria Martin
Partner
PricewaterhouseCoopers

Sydney
23 August 2012

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FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

contents

- 22 Consolidated income statement
- 23 Consolidated statement of comprehensive income
- 24 Consolidated balance sheet
- 25 Consolidated statement of changes in equity
- 26 Consolidated statement of cash flows
- 27 Notes to the consolidated financial statements
- 61 Directors' declaration
- 62 Independent audit report to members of Mortgage Choice Limited

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 23 August 2012. The Company has the power to amend and reissue the financial statements.

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 2012

	Notes	2012 \$'000	2011 \$'000
Revenue	5	51,062	49,093
Origination commissions		70,373	89,057
Trailing commissions excluding discount unwind		26,571	25,279
Trailing commissions discount unwind		2,617	2,421
Diversified products commissions		713	394
LoanKit service fees		2,958	1,356
HelpMeChoose.com.au income		1,019	811
Franchise income		612	591
Interest	6	1,123	504
Other income		157,048	169,506
Direct costs			
Origination commissions		(36,380)	(34,752)
Trailing commissions excluding discount unwind		(41,711)	(48,151)
Trailing commissions discount unwind – finance costs	7	(16,040)	(15,681)
Diversified products commissions		(2,047)	(1,896)
HelpMeChoose.com.au direct costs		(1,422)	(869)
Gross profit		59,448	68,157
Operating Expenses	7		
Sales		(12,802)	(9,431)
Technology		(5,433)	(5,005)
Marketing		(7,730)	(7,629)
Finance		(1,952)	(1,955)
Corporate		(4,855)	(4,808)
Profit before income tax		26,676	39,329
Income tax expense	8	(8,221)	(11,870)
Net profit attributable to the owners of Mortgage Choice Limited		18,455	27,459
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	31	15.4	22.9
Diluted earnings per share	31	15.2	22.7

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 2012

	Notes	2012 \$'000	2011 \$'000
Profit for the year		18,455	27,459
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of Mortgage Choice Limited		18,455	27,459

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	10,662	9,027
Trade and other receivables	10	92,683	92,082
Total current assets		103,345	101,109
Non-current assets			
Receivables	11	221,801	208,262
Property, plant and equipment	12	1,125	1,534
Deferred tax assets	13	–	847
Intangible assets	14	2,208	3,159
Total non-current assets		225,134	213,802
Total assets		328,479	314,911
LIABILITIES			
Current liabilities			
Trade and other payables	15	61,968	60,673
Current tax liabilities		2,935	1,899
Provisions	16	889	807
Total current liabilities		65,792	63,379
Non-current liabilities			
Trade and other payables	17	133,672	126,121
Deferred tax liabilities	18	34,913	34,704
Provisions	19	483	397
Total non-current liabilities		169,068	161,222
Total liabilities		234,860	224,601
Net assets		93,619	90,310
EQUITY			
Contributed equity	20	1,558	1,207
Reserves	21(a)	1,260	1,141
Retained profits	21(b)	90,801	87,962
Total equity		93,619	90,310

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 2012

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2010		1,207	597	75,475	77,279
Total comprehensive income for the year as reported in the 2011 financial statements		-	-	27,459	27,459
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	20	-	-	-	-
Dividends paid	22	-	-	(14,972)	(14,972)
Employee share options – value of employee services	32	-	544	-	544
Balance at 30 June 2011		1,207	1,141	87,962	90,310
Total comprehensive income for the year as reported in the 2012 financial statements		-	-	18,455	18,455
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	20	351	(351)	-	-
Dividends paid	22	-	-	(15,616)	(15,616)
Employee share options – value of employee services	32	-	470	-	470
Balance at 30 June 2012		1,558	1,260	90,801	93,619

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 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		130,037	123,653
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(117,437)</u>	<u>(111,377)</u>
		12,600	12,276
Interest received from trailing commissions		26,590	25,280
Interest paid on trailing commissions		<u>(16,040)</u>	<u>(15,681)</u>
Income taxes paid		<u>(6,129)</u>	<u>(7,580)</u>
Net cash inflow from operating activities	30	<u>17,021</u>	<u>14,295</u>
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		(382)	(934)
Proceeds from sale of property, plant and equipment		-	5
Interest received		<u>612</u>	<u>591</u>
Net cash inflow/(outflow) from investing activities		<u>230</u>	<u>(338)</u>
Cash flows from financing activities			
Dividends paid to company's shareholders		<u>(15,616)</u>	<u>(14,972)</u>
Net cash (outflow) from financing activities		<u>(15,616)</u>	<u>(14,972)</u>
Net increase/(decrease) in cash and cash equivalents		1,635	(1,015)
Cash and cash equivalents at the beginning of the financial year		<u>9,027</u>	<u>10,042</u>
Cash and cash equivalents at the end of year	9	<u>10,662</u>	<u>9,027</u>

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

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001 (Cth)*. Mortgage Choice Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (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.

Changes to presentation – classification of expenses

Mortgage Choice Limited decided in the current financial year to change the classification of its expenses in the income statement to separately disclose direct costs that are associated with generating revenues, rather than including them in sales costs. We believe that this will provide more relevant information to our stakeholders as it is more in line with common practice in the industries Mortgage Choice Limited is operating in. The comparative information has been reclassified accordingly.

B. Principles of consolidation**(i) Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mortgage Choice Limited ("Company" or "Parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Mortgage Choice Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1G).

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 a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the employee share scheme are disclosed as treasury shares and deducted from contributed equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at the fair value of the consideration received or receivable.

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. Other companies in the Group earn service fees by processing commissions for contracted brokers and providing software services. Revenue is recognised as the service is performed.

Revenue from sale of services is recognised as follows:

(i) Origination commissions

Origination commissions received by the Company are recognised as revenue on settlement of the loan. Commissions may be "clawed back" by lenders at a later date as per their individual policies. These clawbacks are netted against revenue at the time incurred. The Group receives origination commissions for health insurance policies which are recognised as revenue when the policy is written.

(ii) Trailing commissions

The Company receives trailing commissions from lenders over the life of the settled loans in its loan book based on outstanding balance. The Company makes trailing commission payments to franchisees based on the outstanding loan book balance of the individual franchisees. The Group also receives trailing commissions from health funds for two years commencing on the first anniversary of the health insurance policy being written. No trailing commissions are payable for health insurance policies.

On initial recognition at settlement or at the date the health policy is written, trailing commission revenue and the related receivable are recognised at fair value being the net present value of the expected future trailing commissions to be received. An associated expense and payable to the franchisees are also recognised initially measured at fair value being the net present value of the expected future trailing commission payable to franchisees.

Subsequent to initial recognition and measurement, both the trailing commission receivable and payable are measured at amortised cost. The carrying amounts of the receivable and payable are adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective interest rate. Any resulting adjustment to the carrying value is recognised as income or expense in the income statement.

(iii) Franchise fee income

Franchise fee income is derived from the sale of franchises by the Company and comprises licence fees and contributions for training, franchise consumables and compliance costs. Licence fees are partially repayable should franchisees terminate their franchise agreement in accordance with a repayment schedule as defined in the agreement. Licence fee income is recognised in accordance with this schedule. Contributions for training, franchise consumables and compliance costs are recognised as revenue on receipt. Licence fees which may be repayable to franchisees at the balance sheet date are included in liabilities.

(iv) Service fee income

The Group also provides services to mortgage brokers by collecting origination and trailing commissions and processing them for the broker in exchange for a fee, as well as providing software and other services. Fees for these services are recognised at the time the service is provided.

(v) Mortgage lead income

The Group also sells leads generated by its comparison website to mortgage brokers. This income is recognised at the time the lead is delivered.

(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) Other income

Other income includes contributions from lenders towards conferences and workshops which are recognised as income 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 or directly in equity, respectively.

(i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (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 may be carried forward.

(ii) Tax consolidation legislation

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

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

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

F. Leases

Leases of property, plant and equipment, where the Group as lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for an acquisition comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

H. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that have suffered impairment are reviewed for possible reversal of that impairment at each reporting date.

I. 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. Overdrafts are shown in borrowings in current liabilities on the balance sheet.

J. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due in 30 days.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

K. Trailing commissions receivable

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

L. Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date, which are classified as noncurrent assets. Loans and receivables are included in trade and other receivables in the balance sheet (notes 10 and 11).

M. 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	10-15 years

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

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

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

N. 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 five years).

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

O. Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity 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.

P. Trailing commissions payable

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

Q. Borrowing costs

Borrowing costs are recognised as expenses.

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 12 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 are included in trade and other payables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Employee benefits (continued)

Other long-term employee benefit obligations

The liability for long service leave and 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 date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Retirement benefit obligations

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

Share-based payments

Share-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan (EPOP) and the Mortgage Choice Performance Share Plan (PSP). Information relating to these schemes is set out in note 32.

The fair value of options granted under the Mortgage Choice EPOP and performance shares granted under the Mortgage Choice PSP 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 options and 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 options 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 options 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 EPOP and performance shares granted under the Mortgage Choice PSP are administered by the Mortgage Choice Performance Share Plan Trust; see note 1B(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 12 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 option 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 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. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

X. Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the “rounding off” of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Y. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group’s assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. The group has yet to conduct a detailed analysis of the new standard and its likely impact on the financial results. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards that address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

As the group does not have any joint arrangements, AASB 11 will not have any impact on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. New accounting standards and interpretations (continued)

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the interim reporting period ending 31 December 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Z. Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Mortgage Choice Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Mortgage Choice Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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

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

The entities intend to also enter 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 are 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.

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. 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 debt or 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:

	2012 \$'000	2011 \$'000
Financial assets		
Current		
Cash and cash equivalents	10,662	9,027
Trade and other receivables	92,683	92,082
Non-current		
Receivables	221,801	208,262
	325,146	309,371
<hr/>		
	2012 \$'000	2011 \$'000
Financial liabilities		
Current		
Trade and other payables	61,968	60,673
Non-current		
Trade and other payables	133,672	126,121
	195,640	186,794

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

A. Market risk

Interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2012 the weighted average interest rate on its cash balances was 3.5% (2011 4.6%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by \$101,000 (2011 \$97,000). A decrease of 100 basis points would reduce the Group's after tax result by \$101,000 (2011 \$97,000).

The Group does not have any borrowings and therefore is not exposed to interest rate risk on borrowings.

B. Credit risk

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

The Group bears the risk of non-payment of future trailing commissions by lenders should they become insolvent but correspondingly, there is no legal requirement to pay out any trailing commissions due to brokers or franchisees that have not been received. The risk profile of the Group is set out in the table below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2 FINANCIAL RISK MANAGEMENT (CONTINUED)

2012	Standard & Poor's credit rating	Current assets		Non-current assets	
		Trade receivables \$'000's	NPV future trailing commissions receivable \$'000's	Receivables \$'000's	NPV future trailing commissions receivable \$'000's
ADIs	AA	7,728	57,397	-	161,032
	A+	608	4,835	-	13,566
	A	1,332	8,815	-	24,732
	BBB+	394	2,117	-	5,940
	BBB	352	2,093	-	5,873
	BBB-	36	282	-	791
	Not rated	382	1,803	-	5,058
		10,832	77,342	-	216,992
Non ADIs	AA	2	-	-	-
	A+	8	-	-	-
	A-	92	184	-	445
	BBB+	17	-	-	-
	Not rated	699	1,172	1,076	3,288
		818	1,356	1,076	3,733
Total receivable		11,650	78,698	1,076	220,725

2011	Standard & Poor's credit rating	Current assets		Non-current assets	
		Trade receivables \$'000's	NPV future trailing commissions receivable \$'000's	Receivables \$'000's	NPV future trailing commissions receivable \$'000's
ADIs	AA	7,862	56,230	-	150,063
	A+	1,452	12,843	-	34,274
	A	227	909	-	2,426
	BBB+	703	4,846	-	12,933
	BBB	193	1,322	-	3,529
	BBB-	77	304	-	811
	Not rated	40	357	-	953
		10,554	76,811	-	204,989
Non ADIs	A+	13	-	-	-
	Not rated	220	1,226	1,226	3,273
		233	1,226	1,226	3,273
Total receivable		10,787	78,037	2,452	208,262

C. Liquidity risk and fair value estimation

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

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

At 30 June 2012	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							
<i>Interest bearing</i>							
Cash and cash equivalents	10,659	-	-	-	-	10,659	10,659
Other receivables	110	105	172	326	1,737	2,450	1,036
<i>Non-interest bearing</i>							
Cash and cash equivalents	3	-	-	-	-	3	3
Trade receivables	11,650	-	-	-	-	11,650	11,650
Other receivables	2,281	39	37	17	-	2,374	2,374
Future trailing commissions receivable	42,422	40,333	70,938	142,114	106,067	401,874	299,424
	67,125	40,477	71,147	142,457	107,804	429,010	325,146

The fair value of the future trailing commissions receivable is \$326,104,000. The fair value of all other assets is the same as their carrying amount.

At 30 June 2011	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							
<i>Interest bearing</i>							
Cash and cash equivalents	9,024	-	-	-	-	9,024	9,024
Other receivables	88	85	166	466	603	1,408	944
<i>Non-interest bearing</i>							
Cash and cash equivalents	3	-	-	-	-	3	3
Trade receivables	11,078	-	-	-	-	11,078	11,078
Other receivables	1,979	5	39	-	-	2,023	2,023
Future trailing commissions receivable	42,082	39,942	69,937	136,694	103,485	392,140	286,299
	64,254	40,032	70,142	137,160	104,088	415,676	309,371

The fair value of the future trailing commissions receivable is \$308,381,000. The fair value of all other assets is the same as their carrying amount.

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

Contractual maturities of financial liabilities at 30 June 2012	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							
<i>Non-interest bearing</i>							
Trade payables	9,980	-	-	-	-	9,980	9,980
Other payables	4,602	102	64	14	-	4,782	4,782
Future trailing commissions payable	25,535	24,217	42,829	86,132	64,401	243,114	180,878
	40,117	24,319	42,893	86,146	64,401	257,876	195,640

The fair value of the future trailing commissions payable is \$197,085,000. The fair value of all other liabilities is the same as their carrying amount.

Contractual maturities of financial liabilities at 30 June 2011	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							
<i>Non-interest bearing</i>							
Trade payables	9,675	-	-	-	-	9,675	9,675
Other payables	3,987	108	82	46	-	4,223	4,223
Future trailing commissions payable	25,292	24,023	42,222	61,804	83,744	237,085	172,896
	38,954	24,131	42,304	61,850	83,744	250,983	186,794

The fair value of the future trailing commissions payable is \$186,256,000. The fair value of all other liabilities is the same as their carrying amount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

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.

A. Critical accounting estimates and assumptions

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

Trailing commissions

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

The amortised cost of trailing commissions receivable and the corresponding payable to franchisees is 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 two factors: an annual assessment, with external actuaries, of the underlying loan portfolio including historical run-off rate analysis and consideration of current and future economic factors. These factors are complex and the determination of assumptions requires a high degree of judgement.

The significant assumptions used in the valuation are listed below:

	2012	2011
Weighted average loan life	4.1 years	4.1 years
Average discount rate	9.2%	10.2%
Percentage paid to franchisees (10 year average)	60%	60%

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 \$4.9 million (made up of decreases in current assets of \$0.7 million, non-current assets of \$17.0 million, current liabilities of \$0.4 million, non-current liabilities of \$10.3 million and deferred tax liabilities of \$2.1 million) if run-off rates increase by 10%; or
- an increase in net assets of \$5.5 million (made up of increases in current assets of \$0.7 million, non-current assets of \$19.1 million, current liabilities of \$0.4 million, non-current liabilities of \$11.6 million and deferred tax liabilities of \$2.3 million) if run-off rates decrease by 10%.

Changes to the discount rate are likely to occur as a result of changes to the interest rate. However, management does not consider this to have a material impact on the fair value calculation of trailing commissions receivable and the corresponding payable to franchisees. Management does not consider material changes to the percentage paid to franchisees to be reasonably possible.

In the current period, the annual review of the underlying loan book found that the run-off rate experienced in 2012 was slower than that assumed in the valuation model and an adjustment to the profit and loss for the year was required to recognise the actual experience in the portfolio. In addition the basis for determining the relevant future commission rates was improved and 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 refinements to the trailing commission model resulted in a \$4.1 million adjustment after tax to the Group's profit and loss for FY2012 (2011 – \$12.3 million).

B. Critical judgements in applying the entity's accounting policies

Judgements that management have made in the process of applying the entity's accounting policies are not expected to have a significant effect on the amounts recognised in the financials.

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.

The Chief Executive Officer considers the business from both a product and cash versus IFRS presentation of the results. Therefore the management has identified four reportable product segments, Mortgage Choice franchised mortgage broking (MOC), HelpMeChoose.com.au health insurance, life insurance and home loan comparison website (HMC), LoanKit aggregation mortgage broking (LoanKit) and Mortgage Choice Financial Planning (MCFP). The Group operates only in Australia.

B. Information provided to the Chief Executive Officer

Information provided to the Chief Executive Officer for the year ended 30 June 2012 is as follows:

Product Segments

2012	Total \$'000	MOC \$'000	HMC \$'000	LoanKit \$'000	MCFP \$'000
Revenue	157,048	153,289	2,961	798	–
Gross Profit (IFRS)	59,448	57,111	1,539	798	–
Gross profit (cash)	54,002	52,293	911	798	–
Depreciation and amortisation	1,664	1,413	142	109	–
Income tax expense	8,221	8,679	(250)	(208)	–
NPAT (IFRS)	18,455	19,780	(585)	(601)	(139)
NPAT (cash)	15,022	16,761	(1,025)	(575)	(139)

2011	Total \$'000	MOC \$'000	HMC \$'000	LoanKit \$'000	MCFP \$'000
Revenue	169,506	167,741	1,356	409	–
Gross Profit (IFRS)	68,157	67,261	487	409	–
Gross profit (cash)	50,890	49,994	487	409	–
Depreciation and amortisation	1,514	1,328	78	108	–
Income tax expense	11,870	12,199	(192)	(137)	–
NPAT (IFRS)	27,459	28,226	(447)	(320)	–
NPAT (cash)	15,915	16,682	(447)	(320)	–

Cash versus IFRS

	2012			2011		
	Cash* \$000's	Cash* \$000's	% change	IFRS \$000's	IFRS \$000's	% change
Origination commission income	51,062	49,093	4%	51,062	49,093	4%
Trailing commission income**	84,448	83,777	1%	96,944	114,336	(15%)
	135,510	132,870	2%	148,006	163,429	(9%)
Origination commission paid	36,380	34,752	5%	36,380	34,752	5%
Trailing commission paid**	50,073	50,540	(1%)	57,751	63,832	(10%)
	86,453	85,292	1%	94,131	98,584	(5%)
Net core commissions	49,057	47,578	3%	53,875	64,845	(17%)
Diversified products net revenue	570	525	9%	570	525	9%
HelpMeChoose.com.au and LoanKit net revenue	1,621	881	84%	2,249	881	155%
Other income	2,754	1,906	44%	2,754	1,906	44%
Gross Profit	54,002	50,890	6%	59,448	68,157	(13%)
Operating Expenses	32,302	28,284	14%	32,302	28,284	14%
Share based remuneration	–	–	–	470	544	(14%)
Net profit before tax	21,700	22,606	(4%)	26,676	39,329	(32%)
Net profit after tax	15,022	15,915	(6%)	18,455	27,459	(33%)

* Cash is based on accruals accounting and excludes share-based remuneration and the net present value of future trailing commissions receivable and payable.

** Trailing commission income and trailing commission paid include discount unwind as itemised in the consolidated income statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4 SEGMENT INFORMATION (CONTINUED)

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

	2012	2011	% change	2012	2011	% change
	Cash			IFRS		
	\$000's	\$000's		\$000's	\$000's	
Diversified products commission	2,617	2,421	8%	2,617	2,421	8%
Diversified products direct costs	2,047	1,896	8%	2,047	1,896	8%
Diversified products net income	570	525	9%	570	525	9%
HelpMeChoose.com.au income*	2,330	1,356	72%	2,958	1,356	118%
HelpMeChoose.com.au direct costs	1,422	869	64%	1,422	869	64%
HelpMeChoose.com.au net income	908	487	86%	1,536	487	215%
LoanKit service fees	713	394	81%	713	394	81%
HelpMeChoose.com.au and LoanKit net income	1,621	881	84%	2,249	881	155%
Franchise income	1,019	811	26%	1,019	811	26%
Interest	612	591	4%	612	591	4%
Other Income	1,123	504	123%	1,123	504	123%
Other income	2,754	1,906	44%	2,754	1,906	44%

* HelpMeChoose.com.au cash income is based on accruals accounting and excludes the net present value of future trailing commissions' receivable on health insurance policies written during the year. An adjustment of \$93,000 was included in the current year IFRS income that relates to FY2011.

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

(ii) Net profit after tax

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

	2012 \$000's	2011 \$000's
Cash Net profit after tax	15,022	15,915
NPV future trails on new loans originated, net of payout	15,596	14,007
Less net cash from trail previously recognised under IFRS	(16,549)	(14,776)
Plus adjustments to loan book assumptions	4,112	12,325
Plus gain on prepayment of trail liability	-	188
Plus reversal of amortisation of trail liability*	304	344
NPV future trails on HelpMeChoose.com.au health insurance policies written	440	-
Less share-based payments expense	(470)	(544)
Net IFRS after tax profit for the year	18,455	27,459

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

(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	
	2012 \$000's	2011 \$000's	2012 \$000's	2011 \$000's
Cash	54,002	50,890	49,057	47,578
NPV future trails on new loans originated, net of payout	22,281	20,010	22,281	20,010
Less net cash from trail previously recognised under IFRS	(23,642)	(21,108)	(23,642)	(21,108)
Plus adjustments to loan book assumptions	5,875	17,606	5,875	17,606
Plus gain on prepayment of trail liability	-	267	-	267
Plus reversal of amortisation of trail liability*	304	492	304	492
NPV future trails on HelpMeChoose.com.au health insurance policies written	628	-	-	-
IFRS	59,448	68,157	53,875	64,845

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

NOTE 5 REVENUE

	2012 \$'000	2011 \$'000
Revenue from continuing operations		
<i>Sales revenue</i>		
Services	128,742	143,132
<i>Other revenue</i>		
Interest earned on deposits and loans	612	591
Interest in relation to discount unwind of trailing commissions	26,571	25,279
	155,925	169,002

NOTE 6 OTHER INCOME

	2012 \$'000	2011 \$'000
Conference sponsorships (note (a))	1,102	485
Other	21	19
	1,123	504

A. Conference sponsorships

Lenders sponsor Mortgage Choice's National Conference, High Flyers' Conference, quarterly state conferences, and periodic training days and workshops. No National or High Flyers' conferences were held during the year ended 30 June 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7 EXPENSES

	2012 \$'000	2011 \$'000
Profit from ordinary activities before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges (note (a))	16,040	15,681
<i>Net loss on disposal of property, plant and equipment</i>	27	–
<i>Depreciation</i>		
Plant and equipment	364	339
<i>Amortisation</i>		
Leasehold improvements	143	222
Computer software	1,157	953
<i>Other provisions</i>		
Employee entitlements	219	158
<i>Rental expense relating to operating leases</i>	1,059	1,074
<i>Defined contribution superannuation expense</i>	1,141	953
<i>Termination benefits</i>	38	33

A. Interest and finance charges

Interest expense comprises the unwinding of the discount in relation to payment of trailing commission to franchisees.

NOTE 8 INCOME TAX

A. Income tax expense

	2012 \$'000	2011 \$'000
Current tax	7,034	6,865
Deferred tax	1,056	5,055
Under (over) provided in prior years	131	(50)
	<u>8,221</u>	<u>11,870</u>
Income tax expense is attributable to:		
Profit from continuing operations	8,221	11,870
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 13)	(2,635)	(4,106)
Increase/(decrease) in deferred tax liabilities (note 18)	3,691	9,161
	<u>1,056</u>	<u>5,055</u>

B. Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	26,676	39,329
Income tax calculated @ 30% (2011 – 30%)	8,003	11,799
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:	87	121
	<u>8,090</u>	<u>11,920</u>
Under/(over) provision from prior years	131	(50)
Income tax expense	<u>8,221</u>	<u>11,870</u>

No part of the deferred tax asset shown above and in note 13 is attributable to tax losses.

NOTE 9

CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2012 \$'000	2011 \$'000
Cash at bank and on hand	10,662	9,027

A. Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 10

CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2012 \$'000	2011 \$'000
Trade receivables*	11,650	11,078
Net present value of future trailing commissions receivable	78,698	78,037
Franchisee receivables	179	1,151
Other receivables	613	571
Prepayments	1,543	1,245
	<u>92,683</u>	<u>92,082</u>

* Subject to a limited charge in favour of The Loan Book Security Trust (refer to note 15)

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 with the exception of the net present value of future trailing commissions receivable, which are accounted for at amortised cost.

NOTE 11

NON-CURRENT ASSETS – RECEIVABLES

	2012 \$'000	2011 \$'000
Net present value of future trailing commissions receivable	220,725	208,262
Franchisee receivables	1,076	–
	<u>221,801</u>	<u>208,262</u>

A. Impaired receivables and receivables past due

None of the non-current receivables are impaired.

B. Risk exposure

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 12

NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Year ended 30 June 2011			
Opening net book amount	1,122	637	1,759
Additions	334	4	338
Disposals	–	(2)	(2)
Depreciation charge	(339)	(222)	(561)
Closing net book amount	1,117	417	1,534
At 30 June 2011			
Cost	2,362	1,397	3,759
Accumulated depreciation	(1,245)	(980)	(2,225)
Net book amount	1,117	417	1,534
Year ended 30 June 2012			
Opening net book amount	1,117	417	1,534
Additions	176	–	176
Disposals	(12)	(66)	(78)
Depreciation charge	(364)	(143)	(507)
Closing net book amount	917	208	1,125
At 30 June 2012			
Cost	2,508	1,188	3,696
Accumulated depreciation	(1,591)	(980)	(2,571)
Net book amount	917	208	1,125

NOTE 13

NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	2012 \$'000	2011 \$'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	54,263	51,869
Employee benefits	747	639
Depreciation and amortisation	220	99
Accrued expenses	121	109
Total deferred tax assets	55,351	52,716
Setoff of deferred tax assets pursuant to setoff provisions (note 18)	(55,351)	(51,869)
Net deferred tax assets	–	847
Deferred tax assets to be recovered within 12 months	14,906	14,326
Deferred tax assets to be recovered after more than 12 months	40,445	38,390
	55,351	52,716

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 2010	47,797	580	108	125	–	48,610
Charged/(credited) to the income statement	4,072	59	(9)	(16)	–	4,106
At 30 June 2011	51,869	639	99	109	–	52,716
Charged/(credited) to the income statement	2,394	108	121	12	–	2,635
At 30 June 2012	54,263	747	220	121	–	55,351

NOTE 14

NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Computer software* \$'000
At 30 June 2010	
Cost	6,849
Accumulated amortisation	(3,333)
Net book amount	3,516
Year ended 30 June 2011	
Opening net book amount	3,516
Additions	596
Amortisation charge	(953)
Closing net book amount	3,159
At 30 June 2011	
Cost	7,445
Accumulated amortisation	(4,286)
Net book amount	3,159
Year ended 30 June 2012	
Opening net book amount	3,159
Additions	206
Amortisation charge	(1,157)
Closing net book amount	2,208
At 30 June 2012	
Cost	7,651
Accumulated amortisation	(5,443)
Net book amount	2,208

* Capitalised computer software includes internally generated software development costs. A significant component of these costs was installed in December 2010 at which time amortisation commenced.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15

CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2012 \$'000	2011 \$'000
Trade payables ^A	9,980	9,675
Net present value of future trailing commissions payable	47,284	46,905
Licence fees repayable	199	154
Other payables	4,505	3,939
	61,968	60,673

A. Loan Book Security Trust

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

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

As at 30 June 2012, 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 \$3,774,507 (2011 – \$3,550,057). This is included as part of the balance of trade payables at 30 June 2012 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 loan book security structure need not be subject to the moratorium arising if an administrator were to be appointed to Mortgage Choice Limited. Only after liquidation does this charge confer comprehensive mortgagee powers on the security trustee.

B. Fair values

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

NOTE 16

CURRENT LIABILITIES – PROVISIONS

	2012 \$'000	2011 \$'000
Make good provision ^A	40	130
Employee entitlements – annual leave	683	558
Employee entitlements – long service leave	166	119
	889	807

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 – provisions as detailed in note 19.

NOTE 17

NON-CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2012 \$'000	2011 \$'000
Net present value of future trailing commissions payable	133,594	125,991
Licence fees repayable	78	130
	<u>133,672</u>	<u>126,121</u>

NOTE 18

NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	2012 \$'000	2011 \$'000
The balance comprises temporary differences attributable to:		
NPV of future trailing commissions receivable	89,827	85,890
Intangibles	393	635
Prepayments and other receivables	44	48
	<u>90,264</u>	<u>86,573</u>
Setoff of deferred tax assets pursuant to setoff provisions (note 13)	(55,351)	(51,869)
Net deferred tax liabilities	<u>34,913</u>	<u>34,704</u>
Deferred tax liabilities to be settled within 12 months	23,654	23,454
Deferred tax liabilities to be settled after more than 12 months	66,610	63,119
	<u>90,264</u>	<u>86,573</u>

Movements – Consolidated	NPV of future trailing commissions payable \$'000	Intangibles \$'000	Prepayments and other receivables \$'000	Total \$'000
At 30 June 2010	76,722	655	35	77,412
Charged to the income statement	9,168	(20)	13	9,161
At 30 June 2011	85,890	635	48	86,573
Charged to the income statement	3,937	(242)	(4)	3,691
At 30 June 2012	89,827	393	44	90,264

NOTE 19

NON-CURRENT LIABILITIES – PROVISIONS

	2012 \$'000	2011 \$'000
Make good provision (refer note 16)	318	278
Employee entitlements – long service leave	165	119
	<u>483</u>	<u>397</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20 CONTRIBUTED EQUITY

A. Share capital

	2012 shares '000	2011 shares '000	2012 \$'000	2011 \$'000
Ordinary shares – fully paid	118,787	118,438	1,558	1,207

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

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

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

Total contributed equity as at 30 June 2012:

Details	Number of shares
Total ordinary shares on issue	120,319,572
Treasury shares (note (i))	(1,532,334)
Total ordinary shares held as contributed equity	118,787,238

(i) Treasury shares

Treasury shares are shares in Mortgage Choice Limited that are held by the Mortgage Choice Performance Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) (see note 32 for further information).

Date	Details	Number of shares
30 June 2010	Balance	1,179,800
7 October 2010	Shares issued to the Mortgage Choice Performance Share Plan Trust	330,550
30 June 2011	Balance	1,510,350
31 August 2011	Treasury shares issues under the PSP to employees	(329,333)
1 December 2011	Treasury shares issues under the PSP to employees	(20,000)
16 February 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	371,317
30 June 2012	Balance	1,532,334

Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
30 June 2010	Balance	118,437,905	1,207
8 October 2010	Shares issued to the Mortgage Choice Performance Share Plan Trust	330,550	–
8 October 2010	Held as treasury shares	(330,550)	–
30 June 2011	Balance	118,437,905	1,207
31 August 2011	Treasury shares issues under the PSP to employees	329,333	324
1 December 2011	Treasury shares issues under the PSP to employees	20,000	27
16 February 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	371,317	–
16 February 2012	Held as treasury shares	(371,317)	–
30 June 2012	Balance	118,787,238	1,558

B. Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 32.

C. Options

Information relating to the Mortgage Choice EPOP Executive Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in the Directors' Report on pages 4-12 of the remuneration report.

NOTE 21**RESERVES AND RETAINED PROFITS****A. Reserves**

	2012 \$'000	2011 \$'000
Share-based payments reserve	1,260	1,141
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	1,141	597
Options and performance shares expensed/(reversed)	470	544
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	(351)	–
Balance 30 June	1,260	1,141

B. Retained profits

	2012 \$'000	2011 \$'000
Balance 1 July	87,962	75,475
Net profit for the year	18,455	27,459
Dividends	(15,616)	(14,972)
Balance 30 June	90,801	87,962

C. Nature and purpose of reserves**(i) 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 CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22 DIVIDENDS

	2012 \$'000	2011 \$'000
A. Ordinary shares		
Final dividend declared out of profits of the Company for the year ended 30 June 2010 of 6.5 cents per fully paid share paid on 20 September 2010:		
Fully franked based on tax paid @ 30%		
6.5 cents per share	-	7,775
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2010 of 6.0 cents per fully paid share paid 21 March 2011:		
Fully franked based on tax paid @ 30%		
6.0 cents per share	-	7,197
Final dividend declared out of profits of the Company for the year ended 30 June 2011 of 7.0 cents per fully paid share paid on 19 September 2011:		
Fully franked based on tax paid @ 30%		
7.0 cents per share	8,396	-
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2011 of 6.0 cents per fully paid share paid 19 March 2012:		
Fully franked based on tax paid @ 30%		
6.0 cents per share	7,219	-
	15,615	14,972
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 7.0 cents per fully paid ordinary share, (2011 – 7.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 18 September 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end, is	8,422	8,398
C. Franked dividend		
The franked portions of the final dividends recommended after 30 June 2012 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 2012.		
	2012 \$'000	2011 \$'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2011 – 30%)	4,033	3,560

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 \$3,610,000 (2011 – \$3,599,000).

NOTE 23**KEY MANAGEMENT PERSONNEL DISCLOSURES****A. Key management personnel compensation**

	2012 \$'000	2011 \$'000
Short-term employee benefits	2,292,489	2,291,425
Post employment benefits	88,988	93,827
Long-term benefits	19,161	7,942
Share based payments	348,872	373,290
Payments to KMP whose services are provided through external companies	-	216,798
Balance 30 June	2,749,510	2,983,282

Detailed remuneration disclosures are provided in the Directors' Report on pages 4-13 of the remuneration report.

B. Equity instrument disclosures relating to key management personnel**(i) Options and performance shares provided as remuneration and shares issued on exercise of such options**

Details of options and performance shares provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in Directors' Report on pages 5-13 of the remuneration report.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011 and 2012 Name	Balance at the start of the year	Granted as compensation	Exercised	Forfeited/ lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Key management personnel of the Group							
M I Russell	2,500,000	-	-	-	2,500,000	2,500,000	-

(iii) Performance shares

The number of performance shares held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Granted as compensation	Vested	Forfeited	Balance at the end of the year	Unvested
Key management personnel of the Group						
M I Russell	478,550	212,100	(79,750)	-	610,900	610,900
S R Mitchell	135,300	65,850	(20,817)	-	180,333	180,333
N C Rose-Innes	157,800	57,650	(54,383)	-	161,067	161,067
A J Russell	20,000	55,350	(20,000)	-	55,350	55,350
S C Dehne	54,800	30,100	(9,017)	-	75,883	75,883

2011 Name	Balance at the start of the year	Granted as compensation	Vested	Forfeited	Balance at the end of the year	Unvested
Key management personnel of the Group						
M I Russell	239,250	239,300	-	-	478,550	478,550
S R Mitchell	62,450	72,850	-	-	135,300	135,300
N C Rose-Innes	125,050	62,050	-	(29,300)	157,800	157,800
A J Russell	-	20,000	-	-	20,000	20,000
S C Dehne	27,050	27,750	-	-	54,800	54,800
K Rampal	-	-	-	-	-	-
J A Hanka	-	-	-	-	-	-
D M Hoskins	-	20,800	-	-	20,800	20,800

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Share holdings

The number of shares in the Company held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Balance at the start of the year	Received during the year on the vesting of shares	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited				
P D Ritchie	350,125	–	–	350,125
S J Clancy	50,000	–	–	50,000
P G Higgins	822,939	–	–	822,939
R G Higgins	15,226,215	–	–	15,226,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	100,000	–	–	100,000
Key management personnel of the Group				
M I Russell	–	79,750	–	79,750
S R Mitchell	20,000	20,817	–	40,817
N C Rose-Innes	–	54,383	–	54,383
A J Russell	–	20,000	–	20,000
S C Dehne	–	9,017	–	9,017
J A Hanka	–	–	–	–

2011 Name	Balance at the start of the year	Received during the year on the vesting of shares	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited				
P D Ritchie	350,125	–	–	350,125
S J Clancy	50,000	–	–	50,000
P G Higgins	822,939	–	–	822,939
R G Higgins	15,226,215	–	–	15,226,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	50,000	–	50,000	100,000
Key management personnel of the Group				
M I Russell	–	–	–	–
S R Mitchell	–	–	20,000	20,000
N C Rose-Innes	–	–	–	–
A J Russell	–	–	–	–
S C Dehne	–	–	–	–
K Rampal	–	–	–	–
J A Hanka	–	–	–	–
D M Hoskins	67,730	–	–	67,730

Shareholdings of Directors and other key management personnel of the Group include those that have been disclosed under representation made to them by the parties within the AASB 124 *Related Party Disclosures*. The Directors and other key management personnel have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. Where a personally related entity has declined to provide shareholding details, the shareholding of that personally related entity has been assumed to be nil.

NOTE 24

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:

	2012 \$'000	2011 \$'000
A. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	188,100	189,600
Total remuneration for audit services	<u>188,100</u>	<u>189,600</u>
B. Non-audit services		
<i>Audit-related services</i>		
PricewaterhouseCoopers Australian firm:		
Other assurance services	-	9,000
Total remuneration for audit-related services	<u>-</u>	<u>9,000</u>
<i>Taxation services</i>		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	23,900	23,900
Other tax services	92,045	10,645
Total remuneration for taxation services	<u>115,945</u>	<u>34,545</u>
Total remuneration for non-audit services	<u>115,945</u>	<u>43,545</u>

NOTE 25

CONTINGENCIES

Contingent liabilities

The Group had contingent liabilities at 30 June 2012 in respect of:

Guarantees

Guarantees given in respect of premises leases \$960,826 (2011 – \$975,322).

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 2012 and 30 June 2011, 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 CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 26 COMMITMENTS

A. Lease commitments

Non-cancellable operating leases

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

	2012 \$'000	2011 \$'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	1,112	1,131
Later than one year but not later than five years	509	1,310
Later than five years	-	-
	<u>1,621</u>	<u>2,441</u>

B. Other commitments

	2012 \$'000	2011 \$'000
Commitments in relation to non-cancellable obligation for the supply of media production services as at the reporting date but not recognised as liabilities payable:		
Within one year	-	112
Later than one year but not later than five years	-	-
	<u>-</u>	<u>112</u>

NOTE 27 RELATED PARTY TRANSACTIONS

A. Parent entity

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

B. Subsidiaries

Interests in subsidiaries are set out in note 28.

C. Key management personnel

Disclosures relating to key management personnel are set out in note 23. Additional disclosures are set out in the Directors' Report in the remuneration report.

D. Loans to/from related parties

The Group has formed a trust to administer the Group's employee share scheme. This is funded by the parent entity. This trust is 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 28

SUBSIDIARIES

Significant investments in subsidiaries

AASB 124(13) 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):

Name of entity	Country of Incorporation	Class of Shares	Equity holding *	
			2012 %	2011 %
MC Loan Book Security Pty Limited	Australia	Ordinary	100	100
Beagle Finance Pty Limited	Australia	Ordinary	100	100
HelpMeChoose.com.au Pty Limited	Australia	Ordinary	100	–
Mortgage Choice Financial Planning Pty Limited	Australia	Ordinary	100	–

These subsidiaries 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 29

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Dividend payment

A final ordinary dividend of \$8,422,000 (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2012 on 23 August 2012 to be paid on 18 September 2012.

The financial effects of the above transaction have not been brought to account at 30 June 2012.

NOTE 30

RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 \$'000	2011 \$'000
Profit for the year	18,455	27,459
Depreciation and amortisation	1,664	1,514
Change in net present value of future trailing inflows	(13,124)	(30,559)
Change in net present value of future trailing outflows	7,982	13,573
Employee expense benefits – share-based payments	470	544
Interest received	(612)	(591)
Net loss/(gain) on sale of non-current assets	78	(3)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(718)	(1,124)
Decrease/(increase) in deferred tax asset	847	(34)
(Increase)/decrease in other operating assets	(298)	(1,020)
Increase/(decrease) in trade payables	253	(1,009)
Increase/(decrease) in other operating liabilities	611	1,063
Increase/(decrease) in provision for income taxes payable	1,036	(765)
Increase/(decrease) in deferred tax liabilities	209	5,089
Increase/(decrease) in other provisions	168	158
Net cash inflow from operating activities	17,021	14,295

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 31 EARNINGS PER SHARE

	Consolidated	
	2012 Cents	2011 Cents
Basic earnings per share	15.4	22.9
Diluted earnings per share	15.2	22.7
	\$'000	\$'000
Earnings used in calculating earnings per share – profit from continuing operations	18,455	27,459
	2012 Number	2011 Number
Weighted average number of shares used as the denominator		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	120,081,158	119,859,505
Adjustments for calculation of diluted earnings per share:		
Options	1,032,768	916,629
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	121,113,926	120,776,134

Information concerning the classification of securities

A. Options

Options granted to employees under the Mortgage Choice Executive Performance Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in the Remuneration report.

B. 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.

NOTE 32**SHARE-BASED PAYMENTS****A. Executive Performance Option Plan (EPOP)**

The Executive Performance Option Plan may be offered on an annual basis to eligible executives as determined by the Board. The details of each offer may differ as to the particulars, especially with regard to performance criteria, performance period and service criteria. At the present time this is a legacy plan as options have not been issued under the plan since May 2009. In the year ending 30 June 2012, no options were offered.

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and have an exercise price based on the market value of the Company's shares at the time of offer. Market value will be the trade-weighted average price of the Company's shares over the one-week period immediately preceding the date of offer. The rules of the EPOP permit the Company to issue new shares or to purchase shares on-market for the purposes of satisfying the exercise of options.

Any options which do not become exercisable following the application of the performance condition and vesting scale will lapse. An option that has become exercisable but is not exercised will lapse on the earlier of:

- ten years after the date of offer;
- three months, or such other period determined by the Board, after the participant ceases employment for a reason other than a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, or any other reason determined by the Board); and
- twelve months, or such other period determined by the Board, after the participant ceases employment for a 'qualifying reason'.

When a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason', any options that have not become exercisable will lapse. However, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, options will vest on a pro-rata basis or in their entirety for certain senior executives.

If the Board determines that a participant has acted fraudulently or dishonestly, has committed an act of 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 options held by the participant will lapse.

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables on pages 9-11 of this report. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Details of options over ordinary shares in the Company provided as remuneration to other key management personnel of the Company are set out below. Further information on the options is set out in the Directors' Report remuneration report.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
2012 and 2011									
1 May 2009	1 May 2019	\$0.76	2,500,000	–	–	–	–	2,500,000	2,500,000
Total			2,500,000	–	–	–	–	2,500,000	2,500,000
Weighted average exercise price			\$0.76	–	–	–	–	\$0.76	\$0.76

The weighted average remaining contractual life of share options outstanding at the end of the period was 6.82 years (2011 – 7.82 years).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 32 SHARE-BASED PAYMENTS (CONTINUED)

B. Performance Share Plan (PSP)

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

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

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

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 attaching 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 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 above.

Fair values 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 each Director and other key management personnel are set out below. Further information on the performance shares and the detailed vesting criteria are set out in the remuneration report.

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

Offer Date	Vesting date	Value	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number
2012								
31 August 2008	31 August 2011	\$1.00	167,900	–	(160,600)	–	(7,300)	–
9 December 2009	31 August 2011	\$1.24	182,700	–	(169,333)	–	(13,367)	–
9 December 2009	31 August 2012	\$1.24	182,700	–	–	–	(13,367)	169,333
9 December 2009	31 August 2013	\$1.24	182,699	–	–	–	(13,367)	169,332
20 September 2010	3 September 2012	\$1.16	203,716	–	–	–	(14,017)	189,699
20 September 2010	3 September 2013	\$1.17	203,716	–	–	–	(14,017)	189,699
20 September 2010	3 September 2014	\$1.19	203,718	–	–	–	(14,016)	189,702
24 December 2010	1 December 2011	\$1.37	20,000	–	(20,000)	–	–	–
16 February 2012	14 September 2012	\$1.26	–	51,097	–	–	–	51,097
16 February 2012	13 September 2013	\$1.26	–	51,097	–	–	–	51,097
16 February 2012	12 September 2014	\$1.26	–	281,031	–	–	–	281,031
16 February 2012	12 September 2014	\$0.63	–	229,925	–	–	–	229,925
Total			1,347,150	613,150	(349,933)	–	(89,451)	1,520,915
Weighted average price			\$1.18	\$1.02	\$1.14	–	\$1.19	\$1.13

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
2011								
31 August 2007	31 August 2010	\$2.20	73,700	–	–	–	(73,700)	–
31 August 2008	31 August 2011	\$1.00	167,900	–	–	–	–	167,900
9 December 2009	31 August 2011	\$1.24	194,133	–	–	–	(11,433)	182,700
9 December 2009	31 August 2012	\$1.24	194,133	–	–	–	(11,433)	182,700
9 December 2009	31 August 2013	\$1.24	194,133	–	–	–	(11,433)	182,700
20 September 2010	3 September 2012	\$1.16	–	210,999	–	–	(7,283)	203,716
20 September 2010	3 September 2013	\$1.17	–	210,999	–	–	(7,283)	203,716
20 September 2010	3 September 2014	\$1.19	–	211,002	–	–	(7,284)	203,718
24 December 2010	1 December 2011	\$1.37	–	20,000	–	–	–	20,000
Total			823,999	653,000	–	–	(129,849)	1,347,150
Weighted average price			\$1.28	\$1.18	–	–	\$1.77	\$1.18

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 1.38 years (2011 – 1.49 years).

The model inputs for performance shares granted on 16 February 2012 included:

- performance shares are granted for no consideration and vest over a period of four years;
- grant date: 16 February 2012 (2011 – 20 September 2010);
- share price at grant date: \$1.26 (2011 – \$1.16);
- expected price volatility of the company's shares: 12.59% (2011 – 30%);
- expected dividend yield: 0% (2011 – 9.4%); and
- risk-free interest rate: 3.78% (2010 – 2 years 4.20%, 3 years 4.15% and 4 years 4.16%).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 32 SHARE-BASED PAYMENTS (CONTINUED)

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:

	2012 \$'000	2011 \$'000
Options issued under EPOP	-	11
Shares issued under PSP	470	533
	<u>470</u>	<u>544</u>

NOTE 33

PARENT ENTITY FINANCIAL INFORMATION

A. Summary financial information

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

	2012 \$'000	2011 \$'000
Balance sheet		
Current assets	106,017	101,921
Total assets	330,290	315,455
Current liabilities	65,697	63,474
Total liabilities	234,760	224,671
<i>Shareholders' equity</i>		
Issued capital	1,558	1,207
Share-based payments reserve	1,260	1,141
Retained profits	92,712	88,436
	<u>95,530</u>	<u>90,784</u>
Profit or loss for the year	<u>19,780</u>	<u>27,779</u>
Total comprehensive income	<u>19,780</u>	<u>27,779</u>

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 \$960,826 (2011 \$975,322). 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 2012 or 30 June 2011.

DIRECTOR'S DECLARATION

FOR THE YEAR ENDED 30 JUNE 2012

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 21-60 are in accordance with the *Corporations Act 2001 (Cth)*, 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 2012 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 (Cth)*.

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



Peter Ritchie
Director

Sydney
23 August 2012

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF MORTGAGE CHOICE LIMITED



Independent auditor's report to the members of Mortgage Choice Limited

Report on the financial report

We have audited the accompanying financial report of Mortgage Choice Limited (the company), which comprises the balance sheet as at 30 June 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Mortgage Choice Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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Independent auditor's report to the members of Mortgage Choice Limited (continued)

Auditor's opinion

In our opinion:

- (a) the financial report of Mortgage Choice Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 21 of the directors' report for the year ended 30 June 2012. 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.

Auditor's opinion

In our opinion, the remuneration report of Mortgage Choice Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Maria Martin

Maria Martin
Partner

Sydney
23 August 2012

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2012

The shareholder information set out below was applicable as at 21 August 2012

A. Distribution of equity securities

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

	Class of equity security	
	Ordinary Shares	Options
1 – 1,000	459	
1,001 – 5,000	1,088	
5,001 – 10,000	693	
10,001 – 100,000	805	
100,001 and over	52	1
	3,097	1

There were 63 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary Shares	
	Number held	Percentage of issued shares
Finconnect (Australia) Pty Ltd	20,611,785	17.13
Citicorp Nominees Pty Limited	10,261,175	8.53
National Nominees Limited	10,222,027	8.50
Ochoa Pty Ltd	9,620,000	8.00
HSBC Custody Nominees (Australia) Limited	9,168,218	7.62
J P Morgan Nominees Australia Limited	8,016,265	6.66
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	3,506,989	2.91
BNP Paribas Noms Pty Ltd <Master Cust DRP>	2,245,993	1.87
R G Higgins	2,094,226	1.74
SCJ Pty Ltd <Jermyn Family A/C>	2,000,000	1.66
Pacific Custodians Pty Ltd <Perf Share Plan Tst A/C>	1,711,133	1.42
Basscave Pty Limited	817,939	0.68
Perpetual Trustees Consolidated Limited < Clime Asset Management A/C>	700,027	0.58
Mr Ian Edwards & Mrs Josephine Edwards	675,000	0.56
UBS Wealth Management Australia Nominees Pty Ltd	672,000	0.56
Marich Nominees Pty Ltd <R Marich Superannuation A/C>	475,629	0.40
Marich Nominees No 2 Pty Ltd <R G Marich family No 2 A/C>	433,215	0.36
Mr David Madden	400,000	0.33
Mr Joseph Brendan Sheahan & Mrs Susan Margaret Sheahan & Mrs Kelley Anne Carpenter <Emu Superannuation Fund A/C>	315,000	0.26
Allingham Holdings Pty Ltd <Hillgrove Super Fund A/C>	300,000	0.25
	84,246,621	70.02

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Executive Performance Option Plan	2,500,000	1

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held
Ordinary shares	
Commonwealth Bank of Australia*	30,226,748
R G Higgins and Ochoa Pty Ltd	15,231,215
FMR Corp. & Fidelity International Limited	13,270,161
INVESCO Australia Limited	10,283,983

- * The relevant interests in 8,916,166 shares are/were held by Colonial First State Investments 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 2001 (Cth)* 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:

(i) 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.

(ii) Options

No voting rights

