Mortgage Choice

Annual Report 2014

Financial Highlights

FOR THE YEAR ENDED 30 JUNE 2014

"In a year that saw some of our **best financial results ever,** we significantly grew our core business and successfully transitioned into a **diversified retail financial services player**."

NET PROFIT AFTER TAX (NPAT)

Net profit after tax on a cash basis was

18.7 MILLION

up 18.6% on FY13.

TOTAL GROUP LOAN BOOK

Total group loan book (i.e. residential and commercial loans written by Mortgage Choice was

UP 4.6% at $47.4 billion.

HOUSING LOAN APPROVALS

$12.2 BILLION

in **housing loan approvals** were generated by the Group, up on $10.4 billion in FY13.

TOTAL DIVIDENDS

A final fully franked dividend of

15.5 CENTS

per share for FY14.

NPAT

NPAT on cash basis including sale of Loankit was

$20.1 MILLION

up 27.1% on FY13.

SETTLEMENTS

Mortgage Choice settlements were $10.4 billion

UP 18.1%

on FY13.

EARNINGS PER SHARE

On an IFRS basis:
earnings per share stood at

16.0 CENTS

compared to 15.2 cents in FY13.

NPAT

NPAT on an IFRS basis was

$18.5 MILLION

TOTAL GROUP REVENUE

Total group revenue on a IFRS basis was

$178.5 MILLION

up 14.8% on FY13.

Contents

Chairman's Report

FOR THE YEAR ENDED 30 JUNE 2014

Mortgage Choice has delivered an exceptionally strong, above target financial result this year, growing our settlements, approvals, franchise numbers and profit. We are pleased to pay a total dividend to shareholders for the year of 15.5 cents per share.

On behalf of the Board, I am delighted to announce that Mortgage Choice has enjoyed another incredibly strong year, delivering strong results across the board including a lift in settlements, franchisee numbers and overall profit.

Financial results for the year to 30 June 2014 showed a net cash profit after tax of $18.7 million – up 18.6% on the 2013 financial year. Better yet, our total housing loan approvals reached $12.2 billion – up 18.6 per cent on FY13. In addition, the total loan book for the group grew by 4.6% to reach $47.4 billion.

Mortgage Choice's core mortgage broking business performed incredibly well over the last 12 months, with settlements surging 18.1 per cent on the previous year to hit $10.4 billion.

In addition, we also significantly increased our franchise footprint, taking our number of broking franchises to 405.

All in all, it was a very successful year for both our core mortgage broking business and Mortgage Choice as a whole.

Our financial planning business continues to grow and strengthen. In June, we appointed our 30th adviser and are well on track to achieve our target of 60 advisers by June 2015, with 33 advisers in place as of August 2014.

When we launched Mortgage Choice Financial Planning, we modeled the new arm of the business on our successful mortgage broking franchise formula and, given that we have enjoyed incredible growth in this business over the last 12 months, it is clear this is a business model that works.

The www.helpmechoose.com.au business made a profitable contribution to the Group this year and is growing in line with expectations. Further, this business continues to add to the diversity of the Group, which forms a key part of our current business strategy.

Mortgage Choice's social responsibility program has far exceeded company expectations and I am pleased to report that since our corporate charity partner was announced in October 2011, our customers, franchise network, staff, lender partners and suppliers have raised in excess of $340,000 in support of Ronald McDonald House Charities. This financial contribution is in addition to the many hours volunteered by the group to help seriously ill children and their families.

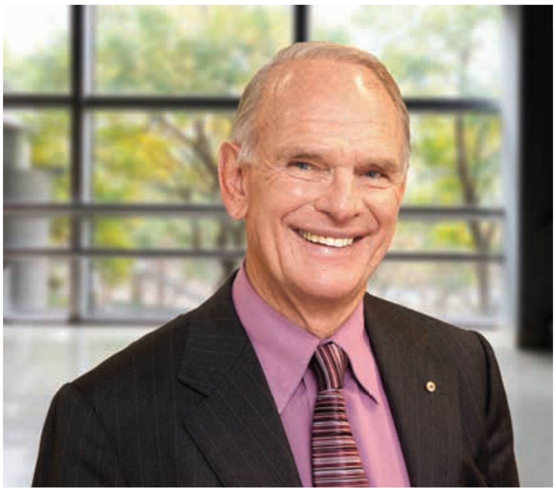
Michael Russell, the executive team and the broader Mortgage Choice team remain as committed as ever to our three year ACT (**A**cquire market share, **C**ross-sell, **T**ransition the business) strategy. Now in our third and final year of the strategy, the team is well down the road of successfully transitioning the business into a fully fledged financial services business and will continue this successful transition over the months ahead.

At Mortgage Choice we believe in helping all Australians live a life of abundance – to have a great standard of living as well as a great standard of life. We believe Australians deserve access to real, relevant and affordable advice from a professional they can trust. We've been providing that advice on home loans for over 22 years and we can now say, hand on heart, that we can help all Australians with much more - including financial planning advice.

We are building a sustainable Mortgage Choice by focusing on what matters most to our customers – honest, trustworthy advice and amazing customer service.

We want Mortgage Choice to become a one-stop shop for our customers. We want to be able to help our customers with all of their financial needs and become their trusted partner throughout their entire financial lifecycle.

We will do this by delivering a broad range of tailored financial solutions that are right for their unique circumstances, offering our customers true choice as well as transparent and trustworthy advice.



Peter M Ritchie

PETER RITCHIE
Chairman

Chief Executive Officer's Overview

FOR THE YEAR ENDED 30 JUNE 2014

We are transitioning the business into a diversified financial services player to help all of our customers at every stage of their financial lifecycle.

What a year it has been. The 2014 financial year had its ups and downs. The Federal Government's self-labeled "tough budget" had consumers reeling, negatively impacting confidence.

At the end of the financial year, data from the Westpac Melbourne Institute of Consumer Sentiment found confidence was sitting approximately 10 per cent below the 2013 average.

This drop in confidence negatively impacted the labour markets, causing the unemployment rate to hit its highest level in 10 years.

But while consumer confidence remains slightly below long term averages and the unemployment rate has risen over the past 12 months, there is also plenty of good news coming out of the Australian economy.

In August 2013, the Reserve Bank of Australia took the necessary steps to stimulate the local economy, cutting the official cash rate to the historically low level of 2.5 per cent.

Since that time, the cash rate has been left untouched, which has allowed business sentiment and property values to improve.

According to National Australia Bank's business surveys, business confidence improved over the second half of the year and while conditions are still soft, they are now much better than they were at the beginning of the 2014 financial year.

Further, property prices continue to climb albeit at a more sustainable rate, with dwelling values across the combined capital cities surging 10.1 per cent over the 2014 financial year.

Sydney and Melbourne led the charge, with the capital cities recording dwelling value growth of 15.4 per cent and 9.4 per cent respectively throughout the 2014 financial year.

Of course, it is not just values that are enjoying sustainable growth, auction clearance rates have remained strong throughout the entire year and there has been a steady increase in housing finance commitments which has led to a spike in home loan approvals.

At Mortgage Choice, we have had a great year, with settlements up 18.1% and approvals up 17.3% year on year.

Better yet, our productivity levels have improved. As a result, Mortgage Choice is the most productive mortgage broker amongst our peers – a fact we are very proud of.

On top of home loan successes, our new financial planning business has also achieved some significant milestones.

In June this year, we announced the appointment of our 30th financial adviser – highlighting the ongoing strength and growth of our diversified business. We are now well on track to meet our target of 60 advisers by June 2015.

The ongoing growth of our diversified business falls perfectly into our three year strategic plan – ACT.

When we first launched ACT it had three central ingredients: Acquire profitable market share in home loans, Cross-sell home loan customers into our financial planning business, and Transition the business into a broader financial services and wealth solutions business.

Now in the third and final year of ACT, we are focused on consolidating the momentum we have generated over the last two years across all areas of the business, including diversified income and financial planning, to make sure we hit our growth targets and successfully transition the brand into a fully fledged financial services powerhouse.

It gives me great pleasure to say we are already half way there, having established a very unique and new generational financial advice business under our own AFSL.

Today, our customers are able to access clear and transparent advice that is both affordable and relevant. Moving forward, we will continue to successfully transition the business so that we not only offer a full suite of financial services, but our customers know to use Mortgage Choice for all of their financial needs.

As part of our transition into a fully fledged financial services powerhouse, we decided it was prudent to refresh and reposition our brand to reflect our new business direction, growth and focus.

Many of you may have already noticed our fresh new logo which forms just part of our overall new brand strategy and further highlights our transition into a diversified financial services business.

While we have enjoyed a very strong and successful year, thanks to the ongoing concerted efforts of our wonderful franchise owners, their staff and our corporate staff, I know we can build on this base over the coming 12 months.

I am excited about the year ahead and know that great things await Mortgage Choice. Everything we do has the customer at the centre and we will do whatever it takes to build long term relationships with our customers and provide them with the solutions, knowledge and choices they need to be able to make informed financial decisions.

MICHAEL RUSSELL
Chief Executive Officer

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2014

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 2014, 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 $8.640 million (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2013 on 22 August 2013 and paid on 16 September 2013.

An interim ordinary dividend of $9.284 million (7.5 cents per fully paid share) was declared out of profits of the Company for the half-year ended 31 December 2013 on 26 February 2014 and paid on 24 March 2014.

A final ordinary dividend of $9.910 million (8.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2014 on 21 August 2014 to be paid on 15 September 2014.

Review of Operations

In a year that saw some of our best financial results ever, we significantly grew our core business and successfully transitioned into a diversified retail financial services player. In this rapidly growing and changing environment, we also maintained high customer satisfaction and franchisee engagement and laid strong foundations for long-term business success and sustainability.

Best financial results ever

We have embraced the opportunities that this year's strong market presented us to deliver some of our best financial results to date across the business. Highlights include a strong growth in underlying statutory revenue and profit, record loan settlements, our highest cash result to date and a new high annual dividend of 15.5 cents.

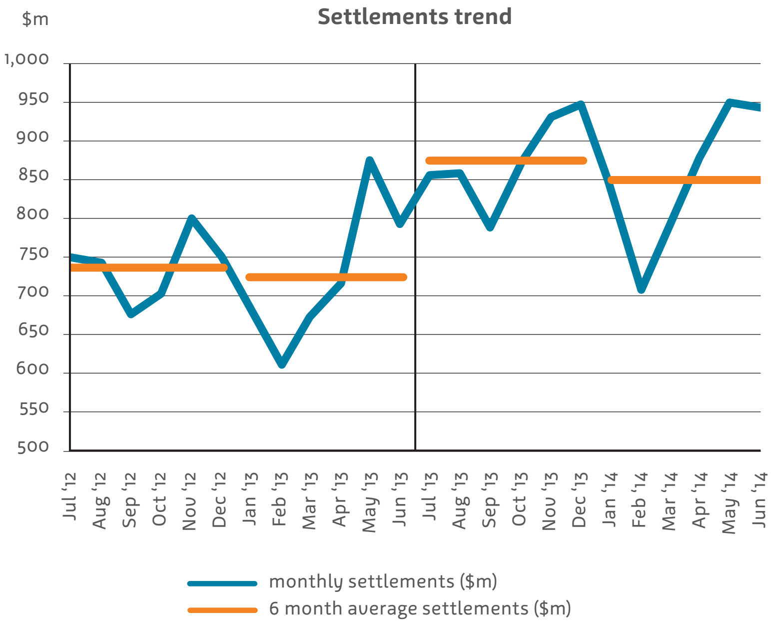
We achieved one of our best underlying statutory results, before the recognition of balance sheet revaluation adjustments to the valuation of the loan book. Underlying statutory revenue and profit before tax from continuing operations compared to last year was up 17 per cent on revenue and 23 per cent on profit before tax.

Underlying Statutory Results		
Continuing operations	**2014**	2013
	$'000	$'000
Operating revenue		
Underlying operating revenue	**175,055**	149,516
Adjustment to valuation of loan book receivable	**3,409**	5,883
Total operating revenue	**178,464**	155,399
Profit before tax		
Underlying result before tax	**28,434**	23,068
Adjustment to valuation to net loan book receivable	**(1,638)**	4,325
Total profit before tax	**26,796**	27,393

However, the realignment of valuation assumptions to reflect changing economic factors resulted in a negative valuation adjustment at the end of the year. Increased run-off was experienced across the industry due in part to customers paying more off their principle in the low interest rate environment. A second factor was the high number of customers who refinanced or upgraded their homes, contributing to Mortgage Choice's record growth in loan settlements. Increased settlement volumes also led to higher commission payments to Mortgage Choice franchisees, which affected our net margin. The combination of these factors resulted in a write down of 1 per cent of the ending value of the Company's loan book.

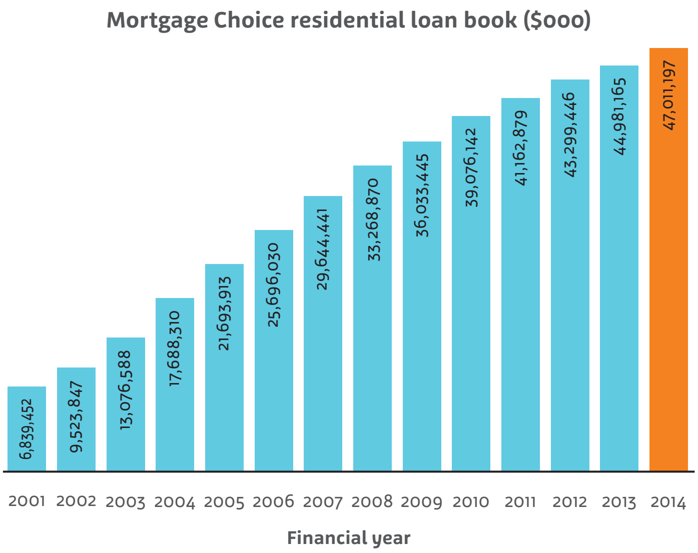
The Market and our Settlements reached new levels

The market for home loans was buoyant this past year. We achieved the highest settlement figures ever, settling $10.370 million in loans in FY14, 18.1 per cent more than last year.



"We achieved **the highest settlement figures ever,** settling **$10.370 million** in loans in FY14, 18.1 per cent more than last year."

Upfront bank commission rates increased to an average of 63.3bp for the year, up from 60.8bp, reflecting the increased competition amongst mortgage providers. This naturally provided a boost to Mortgage Choice revenues as well as the entire mortgage broking industry. And this wasn't the only pleasing news for the industry as a whole. According to data from the Mortgage and Finance Association of Australia, broker market share climbed from an average of 44 per cent in FY13 to 50 per cent by the end of the June 2014 quarter.



"The residential loan book, excluding the LoanKit business, **grew 4.6 per cent** during the year from $45 billion to **$47 billion**."

Mortgage Choice's loan book continued to keep pace with the boost in settlements and in spite of the increased rate of run-off. The residential loan book, excluding the LoanKit business, grew 4.6 per cent during the year from $45 billion to $47 billion.

Growth in Diversified revenues as well as Cash Profits

We experienced strong growth in revenue from diversified sources across Mortgage Choice Financial Planning, Help Me Choose and the sale of other diversified products through our mortgage brokers. Earnings from these business lines grew by approximately 71 per cent from $7.7 million last year to $13.2 million this year. This equates to a 40 per cent increase in their contribution to the overall business – from 5 per cent to 7 per cent of total revenues.

In addition, we recognised our highest ever cash profit results, increasing by 18 per cent from $15.8 million last year to $18.7 million before the sale of the LoanKit business and a 27 per cent increase including LoanKit. Given the strong financial returns we enjoyed this year, we have again achieved attractive earnings per share, which is reflected in the increase in our dividend from 13 cents to 15.5 cents or 19 per cent increase.

Core business grew significantly while maintaining engagement

Maintaining customer satisfaction and franchisee engagement has been a strong focus this year. It was particularly gratifying to see franchisees engage in our growth strategy, and not only hire more loan writers and increase productivity, but also actively engage in adding financial planning to their businesses.

In response to the buoyant market conditions, we increased our franchise numbers from 395 to 405. We worked closely with existing franchisees to help them see the benefits of growing their core broking businesses. In particular, we supported franchisees that recruited new loan writers through our Plus One initiative by providing a monthly financial incentive for the first nine months of the loan writer's tenure. This initiative led to a net of 27 new loan writers joining in the second half of FY14, bringing the total from 507 to 534. At the time of writing, our loan writer number had grown again, increasing by 15 and bringing the total number to 549. We expect further growth in these numbers as additional loan writers are added throughout the end of the year.

In that context of significant business growth and change, loan writer productivity grew. There was an average increase of 15.5 per cent or $2.7 million per broker in loans written across the year, from around $17.5 million per broker last year to $20.2 million in FY14.

Diversification process accelerated

Over the past three years, we have invested in diversifying our offering. This year was pivotal in this regard. We helped customers in more ways than ever before with their asset finance and commercial lending, as well as home, life, and content insurance needs. We expanded our financial planning franchise network and our investment in the Help Me Choose (HMC) business showed growth, moving into profit for the first full year.

Financial Planning business is on track

We are pleased to report that our investment in Mortgage Choice Financial Planning is tracking better than initially forecast in August 2012. We project that we will spend $2.5 million to move this business to profitability, against an original forecast of $3 million and we still forecast to turn a profit on a monthly basis during the next financial year. Our business plan of 60 advisers on the ground by 30 June 2015 is on target, with 33 in place at time of writing – up from 11 last year.

Mortgage Choice franchisees added another dimension to their business by either investing in a Mortgage Choice Financial Planning franchise or developing a referral relationship with an adviser located in another franchisee's office. We have added to the variety of ways we can best serve each customer while assisting our franchisees to build sustainable businesses for the future and add to corporate profits.

Help Me Choose is profitable and growing

The Help Me Choose (HMC) business is now profitable and growing in line with expectations. HMC has expanded its call centre operations to gain the scale needed to operate effectively in this market, taking our numbers from 12 in June last year to 40 at the time of writing this report. Mortgage Choice is also taking advantage of the larger HMC call centre team to boost our outbound call centre capacity during seasonally quieter times.

Laid strong operational foundations for future success

We undertook several important initiatives this year to lay the foundations for future success. In particular, we prepared for the July 2014 roll-out of our new brand and initiated a program to transform our core IT platforms (Project One), and refocused our attention with the divestment of LoanKit.

Evolved brand reflects the new Mortgage Choice

During the year we prepared to launch our evolved brand strategy, the articulation of our purpose internally and how we will reflect it externally. We worked from the inside out to create a holistic brand blueprint and began roll-out in July 2014.

The brand blueprint defines our purpose, what we do, why we do it and our customer promise. It reflects our desire to always do the right thing by our customers and to help them live an abundant life – to achieve a great standard of living as well as a great standard of life.

The blueprint provides the Mortgage Choice team (staff and franchisees) with a set of service standards to guide them in the delivery of amazing customer experiences. Each individual team member will go through immersion workshops or sales training to deepen their understanding of our service standards. The standards will also form part of our new reward and recognition programs and key performance indicators.

Our customer promise will be demonstrated in everything we do and say. Our visual identity and communications strategy is being overhauled, starting with the new logo we launched in July.

With the transition of the business well and truly underway, now it is time to transition the brand and communicate to Australians that we do more than what we are traditionally known for.

Introduction of new broker software platform

We initiated the replacement of our core broker platform with the launch of Project One. Project One will implement an enterprise-wide, trusted, off-the-shelf CRM platform as well as an industry leading broker front end. They will combine to provide our franchisees a web-based platform with functionality to improve their processes as well as the customer experience. We have selected off-the-shelf solutions to reduce the risks and roll-out time. We recognise that large IT projects often deliver late and short of the mark. To combat this problem, we have included professional project managers and change management specialists on our team to ensure the integration is completed on time, on budget and in line with our new service standards. Project One is expected to roll-out in 2016.

Divestment of the LoanKit business

During the year we divested LoanKit to refocus on our remaining business units. On 30 September 2013, Mortgage Choice sold 100 per cent of the issued shares in Beagle Finance Pty Limited, owner of the LoanKit mortgage brokerage aggregation business.

Strategic focus for 2015

All in all, FY14 has been a strong year for our business and pivotal in our transition toward becoming a diversified retail financial services player. During the next year we will continue to focus our energies on growing the business as a whole – focusing on our core mortgage broking business as well as our diversified ventures. We will achieve this by growing our franchise, loan writer and adviser numbers while delivering two foundational projects – the new brand strategy and Project One.

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 2014 that have significantly affected, or may significantly affect:

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

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

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

Likely developments and expected results of operations

Information on likely development 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 likely 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

Peter Ritchie AO, Hon.DBus, BCom, FCPA **Independent Non-Executive Chairman** Chairman of nomination and remuneration committees	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 72.
Sean Clancy FAICD **Independent Non-Executive Director** Member of audit and remuneration committees	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 on the Advisory Board of the Port Adelaide Football Club and a Director and Chief Executive Officer of Transfusion Ltd, Chairman and Non-Executive Director of Metropolis Inc. and Ambassador to Business Events Sydney. Age 54.
Peter Higgins **Non-Executive Director** Member of audit committee	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 30 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 54.
Rodney Higgins **Non-Executive Director** Member of nomination and remuneration committees	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 59.
Steve Jermyn FCPA **Independent Non-Executive Director** Chairman of audit committee	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 65.
Deborah Ralston PhD, FAICD, SFFin, FCPA **Independent Non-Executive Director** Member of audit committee and Chairman of the Mortgage Choice Financial Planning investment committee	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 61.

The table below sets out the Directors' interests at 30 June 2014:

Director	Particulars of Directors' interests in share and options
P D Ritchie	390,125 ordinary shares
S J Clancy	50,000 ordinary shares
P G Higgins	652,939 ordinary shares
R G Higgins	15,296,215 ordinary shares
S C Jermyn	2,000,000 ordinary shares
D E Ralston	125,000 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 2014, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
P D Ritchie	6	7	*	*	–	–	2	2
S J Clancy	6	7	2	3	*	*	2	2
P G Higgins	7	7	3	3	*	*	*	*
R G Higgins	7	7	*	*	–	–	2	2
S C Jermyn	7	7	3	3	*	*	*	*
D E Ralston	7	7	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, Rodney Higgins and Deborah Ralston retire by rotation and, being eligible, offer themselves for re-election.

Remuneration report

The Directors are pleased to present the 2014 remuneration report which sets out remuneration information for the Company's Non-Executive Directors, Chief Executive Officer and other key management personnel (collectively KMP).

The report contains the following sections:

a) Chairman's introduction
b) Directors and executive key management personnel disclosed in this report
c) Remuneration governance
d) Remuneration consultants
e) Executive remuneration policy and framework
f) Relationship between remuneration and Mortgage Choice Limited's performance
g) Non-Executive Director remuneration policy
h) Executive remuneration received during FY14
i) Statutory details of remuneration
j) Service agreements
k) Details of share-based compensation and bonuses
l) Key management personnel equity holdings

A) Chairman's introduction

As Mortgage Choice continues to evolve, so does our executive remuneration. So, prior to detailing remuneration, this introduction highlights aspects of our executive remuneration that ensures alignment with shareholder interests, and a refinement applied to CEO remuneration in FY14.

Base remuneration retains a deferred component, paid in shares. This aligns a part of base remuneration with shareholders, and encourages executive retention. Since the GFC shares have been provided specifically as a retention payment. However, as the company has grown and the benefits of this policy in terms of shareholder alignment have become more proven and tested, we have decided to integrate deferred shares as a permanent part of an executive's fixed remuneration.

In response to shareholder feedback, we reintroduced a performance contingent long-term incentive (LTI) plan in FY12 following the tumultuous financial years of FY10 and FY11 in the midst of the GFC. Performance shares vest based on either relative total shareholder return (TSR) or cash EPS growth performance. The performance range is sufficiently broad to ensure that total remuneration increases in accord with good performance, and reduces if performance does not meet expectations. This has served us well and will be retained in its current form.

During FY14, the Board increased the CEO's remuneration appropriate to the growth in Company value. The increase was both in base remuneration and incentive opportunity. The increase in base remuneration is received almost entirely as deferred shares. The payment in deferred shares is consistent with our previous practice, although this year we specifically recognised it as an integral part of fixed remuneration rather than as a separate element.

The increase in the CEO's incentive opportunity permitted the introduction of additional LTI tranches specifically focused on a scorecard measuring success in the operational rollout of our strategy. The value of dividends is only included to the extent that LTI performance rights vest. Lastly, to ensure that the CEO builds and maintains a sound legacy, there is provision for the LTI to remain on foot, and be tested at the end of the performance period, in the event he leaves the company in good circumstances and by mutual agreement.

The remainder of this executive report provides more detail.

B) Directors and executive 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
Melissa J McCarney	General Manager, Group Marketing
Simon C Dehne (to 31 December 2013)	CEO of LoanKit

C) Remuneration Governance

The Board Remuneration Committee has primary responsibility for remuneration governance. The Committee consists of three Non-Executive Directors – Sean Clancy (independent), Rodney Higgins and Peter Ritchie (independent chair).

The Remuneration Committee makes 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.

The Committee's objective is to ensure that remuneration policies and structures are fair, attract and retain executives and directors with the requisite experience and knowledge, and aligned with the long-term interests of the Company. In doing this, the Remuneration Committee seeks advice from independent remuneration consultants (see below).

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

D) Remuneration consultants

During the year ending 30 June 2014, the Company's Remuneration Committee employed the services of Guerdon Associates to review its existing remuneration policies, provide market data, advise in respect of short-term and long-term incentive plan design, conduct TSR performance testing, research TSR performance peer constituents, provide independent equity valuation, and assist with incentive plan documentation and implementation.

Under the terms of the engagement, Guerdon Associates was paid $43,898 for these services. Guerdon Associates was not engaged to provide any services to management and has confirmed that its services were provided 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:

- Guerdon Associates 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 remuneration recommendations was provided by Guerdon Associates directly to the chair of the Remuneration Committee; and
- Guerdon Associates was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives.

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

E) Executive remuneration policy and framework

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

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

The executive remuneration framework has three components:

- base remuneration including salary, non-cash benefits, superannuation and deferred shares;
- short-term performance incentive (STI), and
- long-term incentive (LTI).

The proportions of these components, assuming the maximum incentive components are paid in the remuneration mix, are tabulated below.

Table 1: Executive KMP remuneration mix

Position	Base remuneration	Maximum STI	Maximum LTI
Chief Executive Officer	42%	14%	44%
Other KMP executives	68%	19%	13%

The remuneration policies described below apply to KMP 'executives'.

Base remuneration

An executive's base remuneration comprises a fixed cash salary and superannuation limited to the maximum super contribution base. Executives have an opportunity to salary sacrifice amounts from their fixed salary towards additional superannuation and a series of prescribed benefits plus any associated fringe benefits tax. In addition, executives receive deferred shares that are held in trust and vest in three equal tranches contingent on continued service of 1, 2 and 3 years, respectively. While originally these deferred shares were a retention incentive in the wake of the GFC, conservative levels of salary, company growth, and shareholder alignment advantages have permitted them to be retained and integrated into base remuneration.

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

Short-term performance incentives

Prior to any short-term incentive (STI) payment being considered, the Group must achieve its profit gateway for the year. Should the Group achieve the profit gateway target set by the Board each year, an STI funding pool 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. Requiring a minimum profit hurdle to be achieved before any STI payments are made ensures additional 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.

Each executive position has a maximum level of STI opportunity. Once the required profit gateway is achieved, STI for individual executives is primarily based on an assessment of key performance indicators ("KPIs"). KPIs are related to the accountabilities of the position and its impact on the organisation's or business unit's performance. Each executive is accountable for a unique set of KPIs which specify operational targets for the Company to achieve its annual agreed profit target and business strategy. KPIs include such targets as growth in the franchise network, volume of settlements, the number of group office leads as well as the completion of assigned projects. These KPIs are set and assessed annually for the CEO by the Board and for other executives by the CEO. With the exception of the CEO, the executives may also have additional factors, such as their contribution to the targets of others or the achievement of new initiatives introduced during the year, as well as the achievement of their KPIs taken into consideration in determining the final level of their STI award.

For executives, the maximum STI opportunity is 52% of cash salary for the CEO and between 25% and 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.

A summary of the short-term incentive is provided in Table 2, below:

Table 2: Short term incentive plan summary

Eligibility	CEO and other KMP executives
Performance period	1 July 2013 – 30 June 2014
Performance assessment finalised	Post audit
Payments made	31 August
Eligibility requirements for payment	• In continuous service to 1 July following the end of the financial year unless terminated in the event of death, disability or redundancy • Company meets gateway profit requirement • Individual meets minimum performance requirements on specified key performance indicator (KPI) requirements
Financial gate prior to any payment	Agreed profit target
Individual assessment	Financial and operational KPIs KPIs set by reference to budget and strategic plan KPIs vary by individual
Payment vehicle	Cash
Deferral period	None
Maximum opportunity as a proportion of cash salary	CEO: 52% Other executives: 25% to 32%
Option for discretion?	Yes

In FY14 Mortgage Choice recorded its highest cash profit, significantly exceeding the agreed profit target gateway. As a result, the CEO achieved his target and received 100% of his STI payment. In consideration of record profits, strong performance against KPIs and the contribution of the remaining executives to the targets of others, the remaining executives received the maximum STI award this year.

Long-term incentive (LTI)

This section describes the LTI plan in which the CEO and KMP executives have been eligible to participate from FY14.

The LTI plan is a performance contingent payment for achieving specified performance outcomes measured over a three-year performance period.

Two independent performance measures are used in the LTI plan – total shareholder return (TSR) relative to a comparison group and cash earnings per share (EPS) growth. Each performance measure determines 50% of the LTI reward.

TSR is the percentage increase in the Company's share price plus reinvested dividends, expressed as a percentage of the initial investment, and reflect the increase in value delivered to shareholders over the performance period. The relative TSR comparison group is comprised of companies within the ASX Financials sector with a market capitalisation between $40 million and $1 billion as at 31 August 2013, excluding Real Estate Investment Trusts. Consistent with the Company's remuneration philosophy, the vesting scale encompasses a performance window that is wider than the performance ranges adopted by other companies, with vesting beginning at 40th percentile relative TSR performance, and maximum vesting occurring at 90th percentile relative TSR performance.

Cash EPS growth is based on the cash result as presented to the market and stated in the notes of the Company's audited statutory accounts and the average number of ordinary shares on issue during the performance period. Cash profits are calculated by adjusting audited statutory profits for trail commission recognised on a net present value basis and performance shares expense. Performance requirements are expressed in terms of a compound annual growth (CAGR) requirement. The cash EPS growth requirement is consistent with our remuneration philosophy and strategic plan, and recognises that growth will be moderate given the Board's relatively high dividend payout policy. The threshold to maximum performance range for vesting of LTI is 2% to 5% cash EPS growth.

The remuneration vesting on attaining threshold performance is 35% of the maximum. This is less than market standards, reflecting our remuneration philosophy and the Board's requirement that "cliff" vesting of reward be minimised to reduce the prospect of excessive risk taking as the threshold performance level for remuneration vesting is approached. Additional LTI vests on a pro-rata basis as performance increases until 100% is reached at the specified maximum performance level.

Payment is made in performance shares under the Performance Share Plan (PSP), which are granted at the beginning of the performance period and vest subject to performance assessment and the vesting criteria at the end of the performance period. Performance shares are held in trust and may be new issue shares or purchased on market. Dividends on unvested performance shares are distributed to participants. The use of performance shares and dividends is intended to align the interests of executives with shareholders. The payment of dividends on unvested shares is considered appropriate given that: dividends vary with profitability, and so enhance executive focus on profit growth; paying dividends is a tax effective form of remuneration, as they include franking credits; and the overall levels of executive remuneration are conservative.

Executives will forfeit unvested LTI on cessation of employment with the Company unless the cessation results from death, redundancy, disablement or other exceptional circumstances, in which case, current LTI grants may remain on foot and subject to testing at the end of the performance period at the discretion of the Board.

Executives are prohibited from entering into any hedging (or risk reduction) arrangements in relation to LTI plan performance shares or performance rights.

CEO Performance Rights LTI Plan

In addition to the LTI plan elements described above, the CEO is also eligible to receive performance rights under the Share Rights Plan (SRP) subject to additional three-year performance requirements. FY14 was the first year that these performance rights were granted. A performance right is a right to one Mortgage Choice share, plus the number of shares that would have resulted from reinvestment of dividends during the performance period on the shares acquired on vesting of the rights, or these shares equivalent in cash value at the absolute discretion of the Company. No dividends are paid on unvested rights during the performance period, or on rights that do not vest. The shares required for the CEO's performance rights LTI plan might be sourced on market, from new issue shares, or from shares held by the trustee of the PSP. Treatment on cessation and hedging rules are the same as for the performance share LTI plan.

The performance conditions for the CEO's performance rights LTI plan are in the form of a balanced scorecard, with four primary objectives that directly reflect the operational application of the strategic plan set and approved by the Board. Achievement is measured against quantitative threshold, target and stretch measures, with a maximum of 25% of the rights vesting in accordance with performance against each independent requirement on a sliding scale.

The four primary strategic plan objectives focus the CEO on the transition of Mortgage Choice to a retail diversified financial services provider without sacrificing growth in the core broking business. Diversification objectives include the expansion of the adviser count in the financial planning network as well as targeted growth in diversified revenue. Objectives also target growth in profits of the mortgage broking business and the Group as a whole. Actual requirements remain commercially sensitive during the performance period but will be disclosed in full at the end of the period.

A summary of FY14 LTI plans is shown in Table 3, below:

Table 3: Long term incentive plan summary

Eligibility	CEO and other KMP executives
Performance period	1 July in year 1 – 30 June in year 3
Frequency of grants	Annual
Performance assessment finalised	Post audit
Vesting date	1 September
Eligibility requirements for vesting	1. In continuous service unless considered a good leaver (i.e. in the event of death, disability, redundancy or other exceptional circumstances) 2. Meets minimum performance requirements
Performance requirements	Performance shares (CEO and other KMP executives): 1. TSR relative to ASX Financials companies with a market capitalisation between $40 million and $1 billion at 31 August 2013, with specific companies in the peer group being Perpetual Ltd, SFG Australia Ltd, FKP Property Group, Peet Ltd, NIB Holdings Ltd, Magellan Financial Group Ltd, FlexiGroup Ltd, Cedar Woods Properties Ltd, BT Investment Management Ltd, Finbar Group Ltd, United Overseas Australia Ltd, ClearView Wealth Ltd, Austbrokers Holdings Ltd. Euroz Ltd, MyState Ltd, The Trust Co Ltd, Servcorp Ltd, IMF Australia Ltd, Wide Bay Australia Ltd, Bell Financial Group Ltd, Forest Place Group Ltd, Sunland Group Ltd, Countplus Ltd, RHG Ltd, Equity Trustees Ltd, Devine Ltd, K2 Asset Management Holdings Ltd, Hunter Hall International Ltd, AVJennings Ltd, Payce Consolidated Ltd, HFA Holdings Ltd, Treasury Group Ltd, Phileo Australia Ltd, Homeloans Ltd, CIC Australia Ltd, Ozgrowth Ltd, ThinkSmart Ltd, Lifestyle Communities Ltd, InvestorFirst Ltd, Centrepoint Alliance Ltd, ASF Group Ltd, Plan B Group Holdings. The threshold performance is the 40th percentile, and maximum performance is the 90th percentile. 2. Cash EPS growth on a compound annual growth basis with target performance consistent with strategic plan For both tranches: Threshold performance: 35% vests Maximum: 100% vests Prorated vesting between threshold and maximum Performance rights (CEO only): 1. Growth in financial planning network 2. Growth in diversified revenues 3. Profit growth in Mortgage Choice's core broking business profit 4. Profit growth for the Group Each requirement can result in a maximum of 25% of the rights vesting, with target performance consistent with strategic plan
Payment vehicle	Performance shares (CEO and other KMP executives) are shares inclusive of dividends, held in trust. Performance rights (CEO only) are rights to shares or their cash equivalent, with the number of shares including shares that would have resulted from dividend reinvestment during the vesting period.
Method to determine number of share or rights to grant	Performance shares (CEO and other KMP executives) Value of LTI divided by the volume weighted average price of shares over the 5 days prior to the grant. Performance rights (CEO only) number of shares determined by the Remuneration Committee and the Board
Hedging of unvested shares or rights	Not permitted
Maximum opportunity as a proportion of cash salary	Performance shares: CEO 50%, Other executives 25 to 30%; Performance rights: (CEO only) number of shares determined by the Remuneration Committee and the Board
Option for Board discretion?	Yes

Legacy equity grants

Legacy equity grants to executives from prior years that are still outstanding as at the end of the financial year, or that have vested or partially vested during the financial year, are described in section (k).

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

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 FY12, FY13 and FY14 is conditional on cash EPS growth. The following table lists Mortgage Choice Limited's cash earnings per share (EPS):

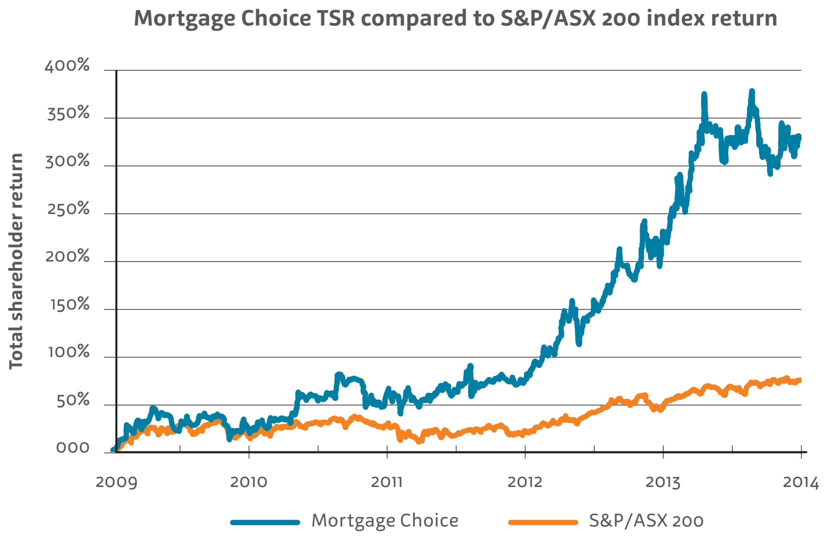
Year	Cash EPS (cents per share)
2010	12.4
2011	13.3
2012	12.5
2013	12.9
2014	16.2

A component of grants made under PSP in FY12, FY13 and FY14 is 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
2010	24%
2011	21%
2012	14%
2013	79%
2014	41%

The figure below illustrates and compares the Company's TSR performance with the ASX 200 index return performance for the five-year period to 30 June 2014.



Source: Guerdon Associates

G) Non-Executive Director remuneration policy

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

Fees paid to the Chairman and the Non-Executive Directors take into account the demands made on, and the responsibilities of, the Directors. 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, other than the chairman of the Mortgage Choice Financial Planning Pty Ltd Investment Committee. 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 below.

The Board reviews fees periodically.

There have been no changes to fee policy since the last disclosure period.

The policy based Non-Executive Director fee for the year was $75,000. The policy based chairman base fee was $125,000. The policy based fee for the chair of the Mortgage Choice Financial Planning Pty Ltd Investment committee was $37,500. Mandated superannuation contributions are in addition to these base board fees.

H) Executive remuneration received during FY14

The table below shows the 'realised remuneration' that executives received in relation to FY14. These amounts will differ from the statutory tables beginning on the next page which are prepared in accordance with the Corporations Act and Australian Accounting Standards, and which, as a general principle, value shares based payments based on the value at the time of grant and do not reflect actual vesting outcomes.

In the table below, the total cash payments received are made up of base remuneration consisting of cash salary and superannuation. Deferred shares vesting in FY14 include all deferred shares offered from FY12 onwards that vested during the year. STI represents cash STI paid in respect of FY14 and the LTI column represents LTI grants from FY10 and FY11 that vested in FY14. Share based remuneration is stated at the value at the vesting date.

	Base Remuneration		**STI**	**LTI**	
	Cash Salary and Superannuation	Deferred Shares vesting FY14	STI	Past Awards vesting FY14	Total Remuneration
Name	$	$	$	$	$
M I Russell, CEO	580,570	366,047	292,653	383,638	1,622,909
S R Mitchell	314,913	26,690	95,084	108,447	545,135
N C Rose-Innes	287,775	23,360	86,400	99,486	497,021
A J Russell	287,775	22,875	86,400	–	397,050
M J McCarney	237,775	–	55,000	–	292,775
S C Dehne * *(from 1/7/13 to 31/12/13)*	109,250	12,195	–	90,843	212,288

* S C Dehne departed the company due to the sale of the LoanKit business 30 September 2013. As the circumstances of his departure met the criteria of "special circumstances" under the Performance Share Plan rules, the Board exercised its discretion and allowed the vesting of his future tenure based shares, the remaining shares were forfeited.

Share based remuneration above is stated at share price at the vesting date. From the date of grant the Mortgage Choice share price has increased markedly increasing executive remuneration in line with the increase in shareholder value over the period. The additional remuneration related to the increase in share price from the date of grant to the vesting date is shown below.

Name	**Increase in Remuneration from Share Price Appreciation $**
M I Russell, CEO	274,047
S R Mitchell	65,507
N C Rose-Innes	59,510
A J Russell	9,419
M J McCarney	–
S C Dehne *(from 1/7/13 to 31/12/13)*	52,104

Details of remuneration

The following tables detail remuneration received for the 2013 and 2014 financial years by the Directors and other key management personnel in place during the year ending 30 June 2014.

2014	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	Cash salary $	STI $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Performance Shares $	Total $
Non-Executive Directors								
P D Ritchie *Chairman*	125,000	–	–	11,562	–	–	–	136,562
S J Clancy	75,000	–	–	6,938	–	–	–	81,938
P G Higgins	75,000	–	–	6,938	–	–	–	81,938
R G Higgins	75,000	–	–	6,938	–	–	–	81,938
S C Jermyn	75,000	–	–	6,938	–	–	–	81,938
D E Ralston *Chairman of MCFP Investment Committee*	112,500	–	–	10,406	–	–	–	122,906
Other key management personnel:								
M I Russell, CEO	578,530	292,653	26,632	17,775	9,209	–	741,021	1,665,820
S R Mitchell	294,645	95,084	280	17,775	4,962	–	93,133	513,105
N C Rose-Innes	271,196	86,400	20,243	17,775	6,243	–	82,397	484,254
A J Russell	271,552	86,400	17,574	17,775	2,823	–	72,742	468,866
M J McCarney	227,653	55,000	280	17,775	518	–	17,331	318,557
S C Dehne * (from 1/7/13 to 31/12/13)	107,825	–	–	8,887	(4,625)	–	(6,285)	105,802

* S C Dehne departed the company due to the sale of the LoanKit business 30 September 2013. As the circumstances of his departure met the criteria of "special circumstances" under the Performance Share Plan rules, the Board exercised its discretion and allowed the vesting of his tenure based shares, the remaining shares were forfeited.

2013	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	Cash salary $	STI $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Performance Shares $	Total $
Non-Executive Directors								
P D Ritchie *Chairman*	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, CEO	553,883	286,915	28,638	16,470	18,178	–	277,677	1,181,761
S R Mitchell	274,561	93,220	15,283	16,470	10,007	–	84,751	494,302
N C Rose-Innes	245,852	81,600	289	16,470	14,458	–	74,725	433,394
A J Russell	261,433	81,600	14,104	16,470	2,598	–	48,623	424,829
S C Dehne	202,108	49,904	–	16,470	4,625	–	37,029	310,136
M J McCarney (from 25/3/13 to 30/6/13)	60,732	20,000	289	5,178	–	–	–	86,199

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		
	Salary, super and fringe benefits	Share Based	Total	STI	LTI (Equity based)	Total
Other key management personnel of Group						
M I Russell	37%	21%	58%	18%	24%	42%
S R Mitchell	63%	7%	70%	19%	11%	30%
N C Rose-Innes	65%	7%	72%	18%	10%	28%
A J Russell	66%	5%	71%	18%	11%	29%
M J McCarney	78%	2%	80%	7%	3%	20%
S C Dehne	106%	12%	118%	–	-18%	-18%

l) Details of share-based remuneration

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
9 December 2009	31 August 2013	$1.24	service based	100%
20 September 2010	3 September 2013	$1.17	service based	100%
20 September 2010	3 September 2014	$1.19	service based	to be determined
16 February 2012	13 September 2013	$1.26	service based	100%
16 February 2012	12 September 2014	$1.26	service based	to be determined
16 February 2012	12 September 2014	$1.26	to be determined	to be determined
16 February 2012	12 September 2014	$0.78	to be determined	to be determined
14 September 2012	13 September 2013	$1.74	service based	100%
14 September 2012	12 September 2014	$1.74	service based	to be determined
14 September 2012	14 September 2015	$1.74	service based	to be determined
14 September 2012	14 September 2015	$1.74	to be determined	to be determined
14 September 2012	14 September 2015	$1.08	to be determined	to be determined
23 September 2013	12 September 2014	$2.77	service based	to be determined
23 September 2013	14 September 2015	$2.77	service based	to be determined
23 September 2013	14 September 2016	$2.77	service based	to be determined
23 September 2013	14 September 2016	$2.77	to be determined	to be determined
23 September 2013	14 September 2016	$1.68	to be determined	to be determined

* 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 terms and conditions of each offer of share rights affecting remuneration in this or future reporting periods are as follows:

Grant date	Vesting date	Value per share right at grant date*	Performance achieved	% Vested
24 August 2013	30 June 2014	$2.50	service based	100%
24 August 2013	30 June 2016	$2.50	to be determined	to be determined

* 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 31 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	116,570	275,750	193,039	–	–
S R Mitchell	36,930	87,200	55,607	–	–
N C Rose-Innes	33,560	79,244	50,564	–	–
A J Russell	33,560	79,244	9,006	–	–
M J McCarney	22,780	53,792	–	–	–
S C Dehne	–	–	23,067	59,560	170,937

* 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.

Details of share rights provided as remuneration to the CEO are set out below. Further information on the share rights is set out in note 31 to the financial statements.

Name	Number of share rights granted during the year	Value of share rights at grant date*	Number of share rights vested during the year	Number of share rights lapsed during the year	Value at lapse date
M I Russell – initial grant	375,000	937,500	93,750	–	–

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

Shares provided on vesting of performance share and share right entitlements

Details of shares issued by the Company as a result of the vesting of performance share entitlements during the year ended 30 June 2014 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 2013	79,750	192,198
M I Russell	3 September 2013	79,767	191,441
M I Russell	13 September 2013	33,522	85,146
S R Mitchell	31 August 2013	20,816	50,166
S R Mitchell	3 September 2013	24,283	58,279
S R Mitchell	13 September 2013	10,508	26,690
N C Rose-Innes	31 August 2013	20,684	49,849
N C Rose-Innes	3 September 2013	20,683	49,639
N C Rose-Innes	13 September 2013	9,197	23,360
A J Russell	13 September 2013	9,006	22,875
S C Dehne	31 August 2013	9,016	21,728
S C Dehne	3 September 2013	9,250	22,200
S C Dehne	13 September 2013	4,801	12,195

* 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.

Details of shares issued after the reporting date, but before the date of this report, as a result of the vesting of share rights entitlements during the year ended 30 June 2014 are set out below:

Name	Vesting date	Number of ordinary shares to be issued on vesting of share rights	Value at vesting date*
Other key management personnel			
M I Russell	30 June 2014	98,909	280,902

* 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

Details of remuneration: cash STIs and share based remuneration

For each cash STI and grant of share based remuneration in the tables on pages 18 - 19, 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 on the next page. Share based remuneration will not 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 share based remuneration yet to vest has been determined as the amount of the grant date fair value of the underlying shares that is yet to be expensed.

	STI		Share based remuneration					
Name	Paid %	Forfeited %	Financial Year granted	Vested %	Forfeited %	Financial years in which shares may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
M I Russell	100	–	2014	–	–	30/6/2017	Nil	164,449
			2014	–	–	30/6/2016	Nil	510,414
			2014	–	–	30/6/2015	Nil	5,685
			2014	100	–	–	–	–
			2013	–	–	30/6/2016	Nil	95,630
			2013	–	–	30/6/2015	Nil	2,994
			2013	100	–	–	–	–
			2012	–	–	30/6/2015	Nil	14,769
			2012	100	–	–	–	–
			2011	–	–	30/6/2015	Nil	4,309
			2011	100	–	–	–	–
			2010	100	–	–	–	–
S R Mitchell	100	–	2014	–	–	30/6/2017	Nil	52,096
			2014	–	–	30/6/2016	Nil	5,217
			2014	–	–	30/6/2015	Nil	1,803
			2013	–	–	30/6/2016	Nil	30,294
			2013	–	–	30/6/2015	Nil	954
			2013	100	–	–	–	–
			2012	–	–	30/6/2015	Nil	4,581
			2012	100	–	–	–	–
			2011	–	–	30/6/2015	Nil	1,312
			2011	100	–	–	–	–
			2010	100	–	–	–	–
N C Rose-Innes	100	–	2014	–	–	30/6/2017	Nil	47,344
			2014	–	–	30/6/2016	Nil	4,742
			2014	–	–	30/6/2015	Nil	1,634
			2013	–	–	30/6/2016	Nil	26,524
			2013	–	–	30/6/2015	Nil	838
			2013	100	–	–	–	–
			2012	–	–	30/6/2015	Nil	4,014
			2012	100	–	–	–	–
			2011	–	–	30/6/2015	Nil	1,133
			2011	100	–	–	–	–
			2010	100	–	–	–	–
A J Russell	100	–	2014	–	–	30/6/2017	Nil	47,344
			2014	–	–	30/6/2016	Nil	4,742
			2014	–	–	30/6/2015	Nil	1,634
			2013	–	–	30/6/2016	Nil	26,524
			2013	–	–	30/6/2015	Nil	838
			2013	100	–	–	–	–
			2012	–	–	30/6/2015	Nil	3,849
			2012	100	–	–	–	–
M J McCarney	100	–	2014	–	–	30/6/2017	Nil	32,131
			2014	–	–	30/6/2016	Nil	3,221
			2014	–	–	30/6/2015	Nil	1,109

J) Service agreements

On appointments to the Board after it was listed as a public company, 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 CEO, M I Russell, and other executives are set out in their respective letters of employment. The employment terms do not prescribe the duration of employment for executives except for the CEO, who has a set term of employment ending April 2016. The periods of notice required to terminate employment are set out on the next page:

- 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 all other key management personnel are terminable by either the Company or the executive with three months notice.

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

K) Legacy equity grants vesting in FY14 or outstanding at the end of FY14 and granted prior to FY14

Pre FY12 grants

Shares offered under the Performance Share Plan (PSP) in FY10, and FY11 vest over a four year period, with one third of each grant vesting two years into the period, one third three years in and the remaining third vesting at year four. The criterion for vesting is continuous service over the period to the vesting date.

The final third of the shares granted in FY10 vested in September 2013.

One third of the shares granted in FY11 vested in September 2013.

Detailed vesting information is shown for each tranche on page 20.

Post FY11 grants

Shares offered under the Performance Share Plan (PSP) in FY12 and FY13 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.

Post FY11 grant first tranche

Shares offered under the Performance Share Plan (PSP) in the first post FY11 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 information is shown for each tranche on page 20.

Post FY11 grant second tranche

The second tranche vests based on achieving a target compound growth in cash EPS. 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%, 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%

For compound EPS growth between 2% and 5%, the percentage of EPS-based performance shares to vest will increase from 35% to 100% on a straight line basis.

Post FY11 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%

For TSR performance between the 40th percentile and the 90th percentile, the TSR-based performance shares will vest on a straight-line basis.

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 31 August. The comparator group excludes property related trusts or companies.

The comparator group for the PSP offers made in FY13 comprises: Perpetual Ltd, SFG Australia Ltd, FKP Property Group, Peet Ltd, NIB Holdings Ltd/Australia, Magellan Financial Group Ltd, FlexiGroup Ltd/Australia, Cedar Woods Properties Ltd, BT Investment Management Ltd, Finbar Group Ltd, United Overseas Australia Ltd, ClearView Wealth Ltd, Austbrokers Holdings Ltd, Euroz Ltd, MyState Ltd, The Trust Co Ltd, Servcorp Ltd, IMF Australia Ltd, Wide Bay Australia Ltd, Bell Financial Group Ltd, Forest Place Group Ltd, Sunland Group Ltd, Countplus Ltd, RHG Ltd, Equity Trustees Ltd, Devine Ltd, K2 Asset Management Holdings Ltd, Hunter Hall International Ltd, AVJennings Ltd, Payce Consolidated Ltd, HFA Holdings Ltd, Treasury Group Ltd, Phileo Australia Ltd, Homeloans Ltd, CIC Australia Ltd, Ozgrowth Ltd, ThinkSmart Ltd, Lifestyle Communities Ltd, InvestorFirst Ltd, Centrepoint Alliance Ltd, ASF Group Ltd, Plan B Group.

The comparator group for the PSP offers made in FY12 comprises: Flexigroup Ltd, NIB Holdings Ltd, FKP Property Group, BT Investment Management Ltd, Magellan Financial Group Ltd, Austbrokers Holdings Ltd, United Overseas Australia Ltd, Servcorp Ltd, Mystate Ltd, Cedar Woods Properties Ltd, Clearview Wealth Ltd, SFG Australia Ltd, Wide Bay Australia Ltd, Peet Ltd, Finbar Group Ltd, Forest Place Group Ltd, Sunland Group Ltd, IMF Australia Ltd, The Trust Co Ltd, RHG Ltd, Countplus Ltd, Euroz Ltd, Bell Financial Group Ltd, Equity Trustees Ltd, Devine Ltd, Payce Consolidated Ltd, Treasury Group Ltd, Hunter Hall International Ltd, HFA Holdings Ltd, AV Jennings Ltd, Homeloans Ltd, K2 Asset Management Holdings Ltd, Phileo Australia Ltd, Villa World Ltd, CIC Australia Ltd, ASF Group Ltd, Ozgrowth Ltd, Lifestyle Communities Ltd, FSA Group Ltd, Yellow Brick Road Holdings Ltd.

If any of the companies in the comparator group ceases to exist in its original 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 Company will fund the costs of all share acquisitions under the Plan. 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.

L) Key management personnel equity holdings

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 on the next page.

2014 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	623,848	116,570	(193,039)	–	547,379	547,379
S R Mitchell	189,975	36,930	(55,607)	–	171,298	171,297
N C Rose-Innes	167,627	33,560	(50,564)	–	150,623	150,624
A J Russell	103,467	33,560	(9,006)	–	128,021	128,021
M J McCarney	–	22,780	–	–	22,780	22,780
S C Dehne	82,628	–	(23,068)	(59,560)	–	–

2013 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	610,900	190,140	(177,192)	–	623,848	623,848
S R Mitchell	180,333	60,230	(50,588)	–	189,975	189,975
N C Rose-Innes	161,067	52,730	(46,170)	–	167,627	167,627
A J Russell	55,350	52,730	(4,613)	–	103,467	103,467
S C Dehne	75,883	27,520	(20,775)	–	82,628	82,628

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.

2014 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	–	40,000	390,125
S J Clancy	50,000	–	–	50,000
P G Higgins	822,939	–	(170,000)	652,939
R G Higgins	15,296,215	–	–	15,296,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	125,000	–	–	125,000
Key management personnel of the Group				
M I Russell	874,916	286,789	(450,000)	617,955
S R Mitchell	70,588	55,607	(70,588)	55,607
N C Rose-Innes	90,553	50,564	(22,000)	119,117
A J Russell	24,613	9,006	(8,619)	25,000
M J McCarney	–	–	–	–
S C Dehne	29,792	23,067	(52,859)	–

2013 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	–	70,000	15,296,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	100,000	–	25,000	125,000
Key management personnel of the Group				
M I Russell	79,750	177,192	617,974	874,916
S R Mitchell	40,817	50,588	(20,817)	70,588
N C Rose-Innes	54,383	46,170	(10,000)	90,553
A J Russell	20,000	4,613	–	24,613
S C Dehne	9,017	20,775	–	29,792

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. 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 shareholdings of former staff and their personally related entities have not been obtained, other changes during the year are assumed to be nil.

Shares under option

There were no unissued ordinary shares of Mortgage Choice Limited under option at the date of this report.

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 2014 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. Subject to the terms of the deed, it also gives each executive a right of access to certain documents and requires the Company to maintain insurance cover for the executives.

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

Proceedings on behalf of the Company

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

Non-audit services

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company or Group are important.

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

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

	Consolidated $
Non-audit services – 2014	
Audit-related services	
Deloitte Touche Tohmatsu Australian firm:	
Actuarial services	**75,000**
Total remuneration for audit-related services	**75,000**
Taxation services	
Deloitte Touche Tohmatsu Australian firm:	
Other tax services	1,644
Total remuneration for taxation services	1,644
Total remuneration for non-audit services	**76,644**
Non-audit services – 2013	
Taxation services	
PricewaterhouseCoopers Australian firm:	
Tax compliance services	23,900
Other tax services	18,800
Total remuneration for taxation services	42,700
Total remuneration for non-audit services	**42,700**

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 35.

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

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

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

Peter Ritchie
Director

Sydney
21 August 2014

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2014

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 2014).

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 Peter Ritchie Chairman, 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;
- 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 2014.

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, 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.

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 53%
- Subject to vacancies and circumstances, strive to maintain a fair and balanced level of gender representation in the Senior Management Team. Currently 43% 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 a Leadership program. Currently 55% of participants in the Leadership program are women.

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

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 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

FOR THE YEAR ENDED 30 JUNE 2014

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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The Board of Directors
Mortgage Choice Limited
50 Bridge Street
Sydney NSW 2000

21 August 2014

Dear Board Members

Mortgage Choice Limited

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

As lead audit partner for the audit of the financial statements of Mortgage Choice Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants

Financial Statements

For the year ended 30 June 2014

Contents

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

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

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

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

The financial statements were authorised for issue by the Directors on 21 August 2014. 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 2014

	Notes	2014 $'000	2013 $'000
Revenue	6		
Origination commission		**63,014**	51,965
Trailing commission excluding discount unwind		**74,958**	66,914
Trailing commission discount unwind		**23,577**	25,586
Diversified products commission		**5,691**	3,777
Help Me Choose income excluding discount unwind		**4,468**	3,767
Help Me Choose income discount unwind		**119**	58
Financial Planning income		**2,896**	113
Franchise income		**1,522**	1,192
Interest		**538**	533
Other income	7	**1,681**	1,494
		178,464	155,399
Direct costs			
Origination commission		**(45,777)**	(37,375)
Trailing commission excluding discount unwind		**(47,712)**	(37,023)
Trailing commission discount unwind – finance costs	8	**(14,129)**	(15,470)
Diversified products commission		**(4,483)**	(2,944)
Help Me Choose direct costs		**(1,277)**	(1,249)
Financial Planning commission		**(2,341)**	(95)
Gross profit		**62,745**	61,243
Operating Expenses	8		
Sales		**(13,938)**	(12,983)
Technology		**(5,185)**	(5,344)
Marketing		**(8,675)**	(8,060)
Finance		**(2,094)**	(2,009)
Corporate		**(6,057)**	(5,454)
Profit before income tax		**26,796**	27,393
Income tax expense	9	**(8,249)**	(8,359)
Profit for the period from continuing operations		**18,547**	19,034
Discontinued operation			
Profit/(loss) for the period from discontinued operation	5	**1,252**	(320)
Net profit attributable to the owners of Mortgage Choice Limited		**19,799**	18,714
		Cents	Cents
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share	30	**16.0**	15.2
Diluted earnings per share	30	**16.0**	15.2
From continuing operations			
Basic earnings per share	30	**15.0**	15.5
Diluted earnings per share	30	**15.0**	15.5

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 2014

	Notes	2014 $'000	2013 $'000
Profit for the year		**19,799**	18,714
Other comprehensive income		**–**	–
Total comprehensive income attributable to the owners of Mortgage Choice Limited		**19,799**	18,714

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

Consolidated Balance Sheet

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	**12,445**	10,953
Trade and other receivables	11	**98,876**	95,310
Total current assets		**111,321**	106,263
Non-current assets			
Receivables	11	**238,244**	227,567
Property, plant and equipment	12	**907**	692
Deferred tax assets	13	**–**	–
Intangible assets	14	**2,349**	2,287
Total non-current assets		**241,500**	230,546
Total assets		**352,821**	336,809
LIABILITIES			
Current liabilities			
Trade and other payables	15	**66,702**	63,118
Current tax liabilities		**2,418**	2,017
Provisions	16	**1,103**	993
Total current liabilities		**70,223**	66,128
Non-current liabilities			
Trade and other payables	17	**142,900**	134,938
Deferred tax liabilities	18	**36,605**	36,085
Provisions	16	**762**	526
Total non-current liabilities		**180,267**	171,549
Total liabilities		**250,490**	**237,677**
Net assets		**102,331**	99,132
EQUITY			
Contributed equity	19	**4,604**	4,018
Reserves	20(a)	**2,210**	1,472
Retained profits	20(b)	**95,517**	93,642
Total equity		**102,331**	**99,132**

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 2014

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2012		**1,558**	**1,260**	**90,801**	**93,619**
Total comprehensive income for the year as reported in the 2013 financial statements		–	–	18,714	18,714
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	19	2,460	(560)	–	1,900
Dividends paid	21	–	–	(15,873)	(15,873)
Employee share options – value of employee services	31	–	772	–	772
		2,460	212	(15,873)	(13,201)
Balance at 30 June 2013		**4,018**	**1,472**	**93,642**	**99,132**
Total comprehensive income for the year as reported in the 2014 financial statements		–	–	19,799	19,799
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	19	586	(586)	–	–
Dividends paid	21	–	–	(17,924)	(17,924)
Employee share options – value of employee services	31	–	1,324	–	1,324
		586	738	(17,924)	(16,600)
Balance at 30 June 2014		**4,604**	**2,210**	**95,517**	**102,331**

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 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**180,722**	162,405
Payments to suppliers and employees (inclusive of goods and services tax)		**(154,018)**	(139,303)
		26,704	23,102
Income taxes paid		**(7,612)**	(7,968)
Net cash inflow from operating activities	29	**19,092**	15,134
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		**(1,909)**	(1,406)
Proceeds from sale of LoanKit net of selling costs		**1,695**	–
Interest received		**538**	536
Net cash inflow/(outflow) from investing activities		**324**	(870)
Cash flows from financing activities			
Proceeds from sale of shares		**–**	1,900
Dividends paid to company's shareholders		**(17,924)**	(15,873)
Net cash (outflow) from financing activities		**(17,924)**	(13,973)
Net increase/(decrease) in cash and cash equivalents		**1,492**	291
Cash and cash equivalents at the beginning of the financial year		**10,953**	10,662
Cash and cash equivalents at the end of year	10	**12,445**	10,953

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

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. The financial statements comprise the consolidated financial statements for the Group. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Compliance with IFRS

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).

New and amended standards adopted by the Group

In the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*. This standard removes the individual key management personnel disclosure requirements in AASB 124 *Related Party Disclosures*. As a result the Group only discloses the key management personnel compensation in total and for each of the categories required in AASB 124. In the current year the individual key management personnel disclosure previously required by AASB 124 (note 21 in the 30 June 2013 financial statements) is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards* arising from AASB 13. AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of future trailing commissions receivable and payable, as identified in note 2, has not changed due to the adoption of this standard.

AASB 10 '*Consolidated Financial Statements*', AASB 2011- 7 '*Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*'. The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under AASB 10, control is based on whether an investor has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

AASB 12 '*Disclosure of Interests in Other Entities*', AASB 2011-7 '*Amendments to Australia Accounting Standards arising from the Consolidation and Joint Arrangements Standards*'. Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions – such as how control, joint control, significant influence has been determined
- Interests in subsidiaries – including details of the structure of the Group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates – the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities – information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

AASB 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

AASB 119 '*Employee Benefits (2011)', 'AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011)*'. An amended version of AASB 119 'Employee Benefits' with revised requirements for pensions and other post-employment benefits, termination benefits and other changes.

The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing AASB 119)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risksharing and conditional indexation features
- Incorporating other matters submitted

Management have considered the amendments to AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities*, and AASB 119 *Employee Benefits* and determined no material impact for Mortgage Choice.

Historical cost convention

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

Critical accounting estimates

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

B. Principles of consolidation

i/ Subsidiaries

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

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

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 in both the consolidated and company accounts.

C. Segment reporting

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

D. Revenue recognition

Revenue is measured 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 provide software services. Revenue is recognised as the service is performed.

Revenue from sale of services is recognised as follows:

i/ Origination commissions arising from mortgage broking activities

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 potential clawbacks are estimated and recognised at the same time as origination commission.

ii/ Trailing commissions arising from mortgage broking activities

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.

On initial recognition at settlement, trailing commission revenue and the related receivable are recognised at fair value being the net present value of the expected future trailing commissions to be received. 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, 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/ Health sales income

The Group receives origination and trailing commission for health insurance policies sold through its comparison website. The recognition of this revenue is consistent with mortgage origination and trailing commissions arising from mortgage broking activities detailed in (i) and (ii) above.

v/ Mortgage lead income

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

vi/ Financial services revenue

Financial services revenue is derived from the provision of financial advice and from commission revenue from insurance products. Revenue from the provision of financial services is recognised at the time the service is provided.

vii/ Service fee income

The Group provided services to mortgage brokers aggregating through LoanKit 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.

viii/ 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.

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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.

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). Nonfinancial 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 which 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 1(D).

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 non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (note 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	5-15 years

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

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 1(D).

Q. Borrowing costs

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

R. Provisions

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

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

S. Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

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

Retirement benefit obligations

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

Share-based payments

Share-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan, and the Mortgage Choice Performance Share Plan. Information relating to these schemes is set out in note 31.

The fair value of options granted under the Mortgage Choice Executive Performance Option Plan and performance shares granted under the Mortgage Choice Performance Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the 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 Executive Performance Option Plan and performance shares granted under the Mortgage Choice Performance Share Plan are administered by the Mortgage Choice Performance Share Plan Trust; see note 1(B)(ii).

Short term incentive plans

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

Termination benefits

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

T. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or 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 paid at the reporting date.

V. Earnings per share

i/ Basic earnings per share

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

ii/ Diluted earnings per share

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

W. 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 which 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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

Z. Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in note 32 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 subsidiaries and associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

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

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

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

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

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:

	2014 $'000	2013 $'000
Financial Assets		
Current		
Cash and cash equivalents	**12,445**	10,953
Trade and other receivables*	**96,903**	93,388
Non-current		
Receivables	**238,244**	227,567
	347,592	331,908

* Excludes prepayments

	2014 $'000	2013 $'000
Financial Liabilities		
Current		
Trade and other payables	**66,702**	63,118
Non-current		
Trade and other payables	**142,900**	134,938
	209,602	198,056

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 2014 the weighted average interest rate on its cash balances was 2.50% (2013 2.75%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by $144,000 (2013 $121,000). A decrease of 100 basis points would reduce the Group's after tax result by $144,000 (2013 $121,000).

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.

NOTE 2 FINANCIAL RISK MANAGEMENT continued

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.

2014	Standard & Poor's Credit Rating	Cash and cash equivalents $ 000	Trade and franchisee receivables $ 000	NPV Future trailing commissions receivable $ 000
ADIs	AA-	12,445	9,021	232,040
	A+	–	859	20,915
	A	–	403	4,347
	A-	–	1,161	28,700
	BBB+	–	1,153	17,873
	BBB	–	44	1,108
	BBB-	–	–	–
	Not rated	–	231	5,903
		12,445	12,872	310,886
Non ADIs	AA-	–	95	–
	A+	–	45	–
	A	–	10	–
	A-	–	162	1,368
	BBB+	–	27	–
	Not rated	–	3,948	4,857
		–	4,287	6,225
Total Receivable		12,445	17,159	317,111

2013	Standard & Poor's Credit Rating	Cash and cash equivalents $ 000	Trade and franchisee receivables $ 000	NPV Future trailing commissions receivable $ 000
ADIs	AA-	10,953	8,204	223,336
	A+	–	797	20,321
	A	–	1,205	26,982
	A-	–	109	2,345
	BBB+	–	901	16,811
	BBB	–	13	425
	BBB-	–	30	916
	Not rated	–	316	8,690
		10,953	11,575	299,826
Non ADIs	AA-	–	12	–
	A+	–	15	–
	A-	–	116	1,317
	BBB+	–	15	–
	Not rated	–	2,695	4,789
		–	2,853	6,106
Total Receivable		10,953	14,428	305,932

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 2014	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non-derivatives							
Interest bearing							
Cash and cash equivalents	12,442	–	–	–	–	12,442	12,442
Franchisee receivables	284	296	628	1,395	718	3,321	2,495
Non-interest bearing							
Cash and cash equivalents	3	–	–	–	–	3	3
Trade receivables	14,112	–	–	–	–	14,112	14,112
Franchisee and other receivables	1,349	6	23	51	–	1,429	1,429
Future trailing commissions receivable	42,711	40,477	71,912	145,035	98,362	398,497	317,111
	70,901	40,779	72,563	146,481	99,080	429,804	347,592

The fair value of the future trailing commissions receivable is $338,578,000. The fair value of all other assets is the same as their carrying amount.

At 30 June 2013	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non-derivatives							
Interest bearing							
Cash and cash equivalents	10,950	–	–	–	–	10,950	10,950
Other receivables	253	227	410	844	1,774	3,508	1,938
Non-interest bearing							
Cash and cash equivalents	3	–	–	–	–	3	3
Trade receivables	12,370	–	–	–	–	12,370	12,370
Franchisee and other receivables	693	22	–	–	–	715	715
Future trailing commissions receivable	42,892	40,626	72,416	143,276	94,772	393,982	305,932
	67,161	40,875	72,826	144,120	96,546	421,528	331,908

The fair value of the future trailing commissions receivable is $333,805,000. The fair value of all other assets is the same as their carrying amount.

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

NOTE 2 FINANCIAL RISK MANAGEMENT continued

Contractual maturities of financial liabilities At 30 June 2014	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non-derivatives							
Non-interest bearing							
Trade payables	12,085	–	–	–	–	12,085	12,085
Licence fees and other payables	5,817	155	11	–	–	5,983	5,983
Future trailing commissions payable	25,894	24,543	43,602	87,979	59,746	241,764	191,534
	43,796	24,698	43,613	87,979	59,746	259,832	209,602

The fair value of the future trailing commissions payable is $204,973,000. The fair value of all other liabilities is the same as their carrying amount.

Contractual maturities of financial liabilities At 30 June 2013	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total cash flows $'000	Carrying Amount $'000
Non-derivatives							
Non-interest bearing							
Trade payables	10,693	–	–	–	–	10,693	10,693
Licence fees and other payables	5,078	128	29	–	–	5,235	5,235
Future trailing commissions payable	25,373	23,938	43,025	85,768	56,851	234,955	182,128
	41,144	24,066	43,054	85,768	56,851	250,883	198,056

The fair value of the future trailing commissions payable is $198,993,000. The fair value of all other liabilities is the same as their carrying amount.

Note 3
Critical accounting estimates and judgements

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

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

Trailing commissions

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. 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:

	2014	2013
Weighted average loan life	**4.0 years**	4.0 years
Average discount rate	**7.6%**	8.4%
Percentage paid to franchisees (10 year average)	**61%**	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 $5.4 million (made up of decreases in current assets of $0.8 million, non-current assets of $18.9 million, current liabilities of $0.5 million, non-current liabilities of $11.5 million and deferred tax liabilities of $2.3 million) if run-off rates increase by 10%; or
- an increase in net assets of $6.1 million (made up of increases in current assets of $0.9 million, non-current assets of $21.2 million, current liabilities of $0.5 million, non-current liabilities of $12.9 million and deferred tax liabilities of $2.6 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 2014 was faster than that assumed in the valuation model and an adjustment to the profit and loss for the year was recognised to reflect the actual experience in the portfolio. In addition the assumptions used in the valuation of future trailing commissions were changed to reflect an extension of the current economic environment for the short to medium term. These changes to the trailing commission model resulted in a $1.1 million negative adjustment after tax to the Group's profit and loss for FY14 (2013 – $3.0 million positive adjustment).

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 management has identified four reportable product segments, Mortgage Choice franchised mortgage broking (MOC), Help Me Choose health fund and mortgage comparison website (HMC), Mortgage Choice Financial Planning (MCFP) and LoanKit aggregation mortgage broking (LoanKit) (discontinued). 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 2014 is as follows:

Product Segments

2014	Total $'000	MOC $'000	HMC $'000	MCFP $'000	LoanKit (discontinued) $'000
Revenue	178,793	170,841	4,646	2,977	329
Gross Profit (IFRS)	63,074	58,740	3,369	636	329
Gross profit (cash)	61,545	57,261	3,319	636	329
Depreciation and amortisation	1,603	1,392	129	54	28
Income tax expense	8,210	8,488	92	(331)	(39)
NPAT (IFRS)	18,455	19,106	214	(773)	(92)
NPAT (cash)	18,708	19,342	203	(739)	(98)
NPAT (IFRS) incl sale of LoanKit	19,799	20,450	214	(773)	(92)
NPAT (cash) incl sale of LoanKit	20,052	20,686	203	(739)	(98)

2013	Total $'000	MOC $'000	HMC $'000	MCFP $'000	LoanKit $'000
Revenue	156,534	151,459	3,827	113	1,135
Gross Profit (IFRS)	62,378	58,647	2,578	18	1,135
Gross profit (cash)	57,073	54,031	1,889	18	1,135
Depreciation and amortisation	1,760	1,496	154	–	110
Income tax expense	8,222	8,748	30	(419)	(137)
NPAT (IFRS)	18,714	19,944	69	(979)	(320)
NPAT (cash)	15,774	17,410	(402)	(951)	(283)

Cash versus IFRS

	2014	2013	% change	2014	2013	% change
	Cash*			IFRS***		
	$000	$000		$000	$000	
Origination commission income	63,014	51,965	21%	63,014	51,965	21%
Trailing commission income**	87,407	86,680	1%	98,535	92,500	7%
	150,421	138,645	8%	161,549	144,465	12%
Origination commission paid	45,777	37,375	22%	45,777	37,375	22%
Trailing commission paid**	52,192	51,289	2%	61,841	52,493	18%
	97,969	88,664	10%	107,618	89,868	20%
Net core commissions	**52,452**	**49,981**	**5%**	**53,931**	**54,597**	**(1%)**
Diversified products net revenue	1,208	833	45%	1,208	833	45%
HMC, LoanKit and Financial Planning net revenue	4,125	2,967	39%	4,175	3,656	14%
Other income	3,760	3,292	14%	3,760	3,292	14%
Gross Profit	**61,545**	**57,073**	**8%**	**63,074**	**62,378**	**1%**
Operating Expenses	35,085	34,670	1%	35,085	34,670	1%
Share based remuneration	–	–		1,324	772	72%
Net profit before tax	26,460	22,403	18%	26,665	26,936	(1%)
Net profit after tax	**18,708**	**15,774**	**19%**	**18,455**	**18,714**	**(1%)**
After tax gain on sale of LoanKit	1,344	–	–	1,344	–	–
NPAT including gain on sale of LoanKit	**20,052**	**15,774**	**27%**	**19,799**	**18,714**	**6%**

* 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.

*** IFRS income and expenses include trading results to 30 September 2013 in the discontinued operation (LoanKit). Refer note 5 for further details.

NOTE 4 SEGMENT INFORMATION continued

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

	2014 Cash $000	2013 $000	% change	2014 IFRS $000	2013 $000	% change
Diversified products commissions	5,691	3,777	51%	5,691	3,777	51%
Diversified products direct costs	4,483	2,944	52%	4,483	2,944	52%
Diversified products net income	**1,208**	**833**	**45%**	**1,208**	**833**	**45%**
Help Me Choose commissions*	4,537	3,136	45%	4,587	3,825	20%
Help Me Choose direct costs	1,277	1,249	2%	1,277	1,249	2%
Help Me Choose net income	3,260	1,887	73%	3,310	2,576	28%
Financial Planning revenue	2,896	113	2463%	2,896	113	2463%
Financial Planning direct costs	2,341	95	2364%	2,341	95	2364%
Financial Planning net revenue	555	18	2983%	555	18	2983%
LoanKit service fees	310	1,062	(71%)	310	1,062	(71%)
HMC, LoanKit and Financial Planning net revenue	**4,125**	**2,967**	**39%**	**4,175**	**3,656**	**14%**
Franchise income	1,522	1,192	28%	1,522	1,192	28%
Interest	538	536	0%	538	536	0%
Other Income	1,700	1,564	9%	1,700	1,564	9%
Other income	**3,760**	**3,292**	**14%**	**3,760**	**3,292**	**14%**

* Help Me Choose cash income is based on accruals accounting and excludes the net present value of future trailing commissions' receivable on health policies written during the year.

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 on preceding page) reconciles to the IFRS profit after tax as follows:

	2014 $000's	2013 $000's
Cash Net profit after tax	**20,052**	15,774
NPV future trails on new loans originated, net of payout	**19,934**	16,956
Less net cash from trail previously recognised under IFRS	**(18,134)**	(16,989)
Plus adjustments to loan book assumptions	**(1,146)**	3,027
Plus gain on prepayment of trail liability	**184**	40
Plus reversal of amortisation of trail liability*	**198**	196
NPV future trails on Help Me Choose policies written	**413**	577
Less net cash from trail previously recognised under IFRS	**(378)**	(95)
Less share based payments expense	**(1,324)**	(772)
Net IFRS after tax profit for the year	**19,799**	18,714

* 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	
	2014 $000's	2013 $000's	2014 $000's	2013 $000's
Cash	**61,545**	57,073	**52,452**	49,981
NPV future trails on new loans originated, net of payout	**28,476**	24,222	**28,476**	24,222
Less net cash from trail previously recognised under IFRS	**(25,906)**	(24,270)	**(25,906)**	(24,270)
Plus adjustments to loan book assumptions	**(1,638)**	4,325	**(1,638)**	4,325
Plus gain on prepayment of trail liability	**264**	58	**264**	58
Plus reversal of amortisation of trail liability*	**283**	281	**283**	281
NPV future trails on Help Me Choose policies written	**590**	825	**–**	–
Less net cash from trail previously recognised under IFRS	**(540)**	(136)	**–**	–
IFRS	**63,074**	62,378	**53,931**	54,597

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

Note 5
Discontinued operation

i/ Description

On 30 September 2013 Mortgage Choice sold 100% of the issued shares in Beagle Finance Pty Limited, owner of the LoanKit mortgage brokerage aggregation business, for cash consideration of $1,850,000. The LoanKit division is reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the year is set out below.

ii/ Financial performance and cash flow information

The financial performance and cash flow information presented are for the years ended 30 June 2014 and 30 June 2013. This includes costs incurred by Mortgage Choice between 1 October 2013 and 30 June 2014.

	2014 $'000	2013 $'000
Revenue	**310**	1,062
Interest	**–**	3
Other income	**19**	70
	329	1,135
Expenses	**460**	1,592
Loss before income tax	**(131)**	(457)
Income tax expense	**39**	137
Loss after tax of discontinued operation	**(92)**	(320)
Gain on sale of division before income tax	**1,665**	–
Income tax expense	**(321)**	–
Gain on sale of division after income tax	**1,344**	–
Profit/(loss) from discontinued operation	**1,252**	(320)

	2014 $'000	2013 $'000
Net cash inflow/(outflow) from operating activities	**(60)**	(47)
Net cash inflow from investing activities (2013 includes inflow of $1,750,000 from sale of the division)	**1,850**	–
Net increase/(decrease) in cash for discontinued operation	**1,790**	(47)

iii/ Details of the sale of the division

	2014 $'000	2013 $'000
Consideration received or receivable:		
Cash	1,750	–
Fair value of contingent consideration	100	–
Total disposal consideration	1,850	–
Selling costs	(155)	–
Carrying amount of net assets sold	(30)	–
	1,665	
Income tax expense	(321)	–
	1,344	–

The carrying amounts of the assets and liabilities as at the date of sale (30 September 2013) were:

	30 September 2013 $'000
Assets	
Cash and cash equivalents	13
Trade and other receivables	6
Intangible assets	29
Total assets	48
Liabilities	
Trade and other payables	18
Total Liabilities	18
Net assets	30

Note 6
Revenue

	2014 $'000	2013 $'000
Revenue from continuing operations		
Sales revenue		
Services	**152,549**	127,728
Other revenue		
Interest earned on deposits and loans	**538**	533
Interest in relation to discount unwind	**23,696**	25,644
Other income	**1,681**	1,494
	178,464	155,399

Note 7
Other income

	2014 $'000	2013 $'000
Conference sponsorships (note (A))	**1,610**	1,491
Other	**71**	3
	1,681	1,494

A. Conference sponsorships

Lenders sponsor Mortgage Choice's National Conference, High Flyers' Conference, quarterly state conferences, and periodic training days and workshops.

Note 8
Expenses

	2014 $'000	2013 $'000
Profit from ordinary activities before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges (note (A))	**14,129**	15,470
Net loss on disposal of property, plant and equipment	**–**	–
Depreciation		
Plant and equipment	**354**	376
Amortisation		
Leasehold improvements	**60**	168
Computer software	**1,189**	1,216
Other provisions		
Employee entitlements	**195**	147
Rental expense relating to operating leases	**1,125**	1,075
Defined contribution superannuation expense	**1,259**	1,146
Termination benefits	**47**	47

A. Interest and finance charges

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

Note 9
Income tax

A. Income tax expense

	2014 $'000	2013 $'000
Current tax	**8,011**	7,062
Deferred tax	**520**	1,172
Under (over) provided in prior years	**–**	(12)
	8,531	8,222
Income tax expense is attributable to:		
Profit from continuing operations	**8,249**	8,359
Profit from discontinued operations	**282**	(137)
	8,531	8,222
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 13)	**(3,016)**	(612)
Increase/(decrease) in deferred tax liabilities (note 18)	**3,536**	1,784
	520	1,172

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

	2014	2013
Profit from continuing operations before income tax expense	**26,796**	27,393
Income tax calculated @ 30% (2013 – 30%)	**8,039**	8,218
Discontinued operations tax expense	**282**	(137)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:	**210**	153
	8,531	8,234
Under/(over) provision from prior years	**–**	(12)
Income tax expense	**8,531**	8,222

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

Note 10
Current Assets – Cash and cash equivalents

	2014 $'000	2013 $'000
Cash at bank and on hand	**12,445**	10,953

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 11
Trade and other receivables

	2014			2013		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Trade receivables (1)	**14,112**	**–**	**14,112**	12,370	–	12,370
Net present value of future trailing commissions receivable	**80,975**	**236,136**	**317,111**	80,014	225,918	305,932
Franchisee receivables	**939**	**2,108**	**3,047**	409	1,649	2,058
Other receivables	**877**	**–**	**877**	595	–	595
Prepayments	**1,973**	**–**	**1,973**	1,922	–	1,922
	98,876	**238,244**	**337,120**	95,310	227,567	322,877

(1) 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. Impaired trade receivables

As at 30 June 2014 current trade receivables were not impaired (2013 – $22,000). The amount of the provision in 2013 was $15,000.

C. Risk exposure

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

D. Fair values

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

Note 12
Non-Current Assets – Property, plant and equipment

	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Year ended 30 June 2014			
Opening net book amount	650	42	692
Additions	399	230	629
Disposals	–	–	–
Depreciation charge	(354)	(60)	(414)
Closing net book amount	695	212	907
At 30 June 2014			
Cost	2,416	1,320	3,736
Accumulated depreciation	(1,721)	(1,108)	(2,829)
Net book amount	695	212	907
Year ended 30 June 2013			
Opening net book amount	917	208	1,125
Additions	109	2	111
Disposals	–	–	–
Depreciation charge	(376)	(168)	(544)
Closing net book amount	650	42	692
At 30 June 2013			
Cost	2,394	1,096	3,490
Accumulated depreciation	(1,744)	(1,054)	(2,798)
Net book amount	650	42	692

Note 13
Non-current assets – Deferred tax assets

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	57,459	54,638
Employee benefits	945	875
Depreciation and amortisation	317	264
Accrued expenses	258	186
Total deferred tax assets	58,979	55,963
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	(58,979)	(55,963)
Net deferred tax assets	–	–
Deferred tax assets to be recovered within 12 months	15,677	15,034
Deferred tax assets to be recovered after more than 12 months	43,302	40,929
	58,979	55,963

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 2012	54,263	747	220	121	–	55,351
Charged/(credited) to the income statement	375	128	44	65	–	612
At 30 June 2013	54,638	875	264	186	–	55,963
Charged/(credited) to the income statement	2,821	70	53	72	–	3,016
At 30 June 2014	57,459	945	317	258	–	58,979

Note 14
Non-current assets – intangible assets

	Computer Software $'000
At 30 June 2012	
Cost	7,651
Accumulated amortisation	(5,443)
Net book amount	2,208
Year ended 30 June 2013	
Opening net book amount	2,208
Additions	1,295
Amortisation charge	(1,216)
Closing net book amount	2,287
At 30 June 2013	
Cost	8,946
Accumulated amortisation	(6,659)
Net book amount	2,287
Year ended 30 June 2014	
Opening net book amount	2,287
Additions	1,251
Amortisation charge	(1,189)
Closing net book amount	2,349
At 30 June 2014	
Cost	9,200
Accumulated amortisation	(6,851)
Net book amount	2,349

Note 15
Current liabilities – Trade and other payables

	2014 $'000	2013 $'000
Trade payables(1)	12,085	10,693
Net present value of future trailing commissions payable	48,645	47,219
Licence fees repayable	236	226
Other payables	5,736	4,980
	66,702	63,118

(1) 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 2014, 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 $4,137,371 (2013 – $3,939,267). This is included as part of the balance of trade payables at 30 June 2014 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.

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

	2014 Current $'000	2014 Non-current $'000	2014 Total $'000	2013 Current $'000	2013 Non-current $'000	2013 Total $'000
Make good provision (A)	**85**	**498**	**583**	28	330	358
Employee entitlements – annual leave	**795**	**–**	**795**	776	–	776
Employee entitlements – long service leave	**223**	**264**	**487**	189	196	385
	1,103	**762**	**1,865**	993	526	1,519

A. Make good provision

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

Note 17
Non-current liabilities – Trade and other payables

	2014 $'000	2013 $'000
Net present value of future trailing commissions payable	**142,899**	134,909
Licence fees repayable	**11**	29
	142,900	134,938

Note 18
Non-current liabilities – Deferred tax liabilities

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
NPV of future trailing commissions receivable	**95,133**	91,780
Intangibles	**404**	230
Prepayments and other receivables	**47**	38
	95,584	92,048
Setoff of deferred tax assets pursuant to setoff provisions (note 13)	**(58,979)**	(55,963)
Net deferred tax liabilities	**36,605**	36,085
Deferred tax liabilities to be settled within 12 months	**24,699**	24,043
Deferred tax liabilities to be settled after more than 12 months	**70,885**	68,005
	95,584	92,048

Movements – Consolidated	NPV of future trailing commissions payable $'000	Intangibles $'000	Prepayments and other receivables $'000	Total $'000
At 30 June 2012	89,827	393	44	90,264
Charged to the income statement	1,953	(163)	(6)	1,784
At 30 June 2013	91,780	230	38	92,048
Charged to the income statement	3,353	174	9	3,536
At 30 June 2014	**95,133**	**404**	**47**	**95,584**

Note 19
Contributed equity

	2014 shares '000	2013 shares '000	2014 $'000	2013 $'000
A. Share capital				
Ordinary shares – fully paid	**122,170**	121,709	**4,604**	4,018

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 2014:

Details	Number of shares
Total ordinary shares on issue	123,780,387
Treasury shares (note (i))	(1,610,491)
Total ordinary shares held as contributed equity	122,169,896

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 31 for further information).

Date	Details	Number of shares
30 June 2012	Balance	1,520,917
31 August 2012	Treasury shares issues under the Performance Share Plan to employees	(169,333)
3 September 2012	Treasury shares issues under the Performance Share Plan to employees	(189,699)
14 September 2012	Treasury shares issues under the Performance Share Plan to employees	(51,097)
14 September 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	611,710
30 June 2013	Balance	1,722,498
31 August 2013	Treasury shares issues under the Performance Share Plan to employees	(169,333)
3 September 2013	Treasury shares issues under the Performance Share Plan to employees	(189,699)
13 September 2013	Treasury shares issues under the Performance Share Plan to employees	(102,080)
31 October 2013	Shares issued to the Mortgage Choice Performance Share Plan Trust	349,105
30 June 2014	Balance	1,610,491

Movements in ordinary share capital:

Date	Details	Number of shares	$'000
30 June 2012	Balance	118,798,655	1,558
31 August 2012	Exercise of options	650,000	514
31 August 2012	Treasury shares issues under the Performance Share Plan to employees	169,333	201
3 September 2012	Treasury shares issues under the Performance Share Plan to employees	189,699	220
10 September 2012	Exercise of options	250,000	197
12 September 2012	Exercise of options	800,000	632
19 September 2012	Exercise of options	248,794	197
20 September 2012	Exercise of options	551,206	435
14 September 2012	Treasury shares issues under the Performance Share Plan to employees	51,097	64
14 September 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	611,710	–
14 September 2012	Held as treasury shares	(611,710)	–
30 June 2013	Balance	121,708,784	4,018
31 August 2013	Treasury shares issues under the Performance Share Plan to employees	169,333	210
3 September 2013	Treasury shares issues under the Performance Share Plan to employees	189,699	223
13 September 2013	Treasury shares issues under the Performance Share Plan to employees	102,080	153
31 October 2013	Shares issued to the Mortgage Choice Performance Share Plan Trust	349,105	–
31 October 2013	Held as treasury shares	(349,105)	–
30 June 2014	Balance	122,169,896	4,604

B. Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 31.

C. Options

Information relating to the Mortgage Choice 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 is set out in note 31.

Note 20
Reserves and retained profits

A. Reserves

	2014 $'000	2013 $'000
Share-based payments reserve	**2,210**	1,472
Movements:		
Share-based payments reserve		
Balance 1 July	**1,472**	1,260
Performance shares expensed/(reversed)	**1,324**	772
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	**(586)**	(560)
Balance 30 June	**2,210**	1,472

B. Retained profits

	2014 $'000	2013 $'000
Balance 1 July	**93,642**	90,801
Net profit for the year	**19,799**	18,714
Dividends	**(17,924)**	(15,873)
Balance 30 June	**95,517**	93,642

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.

Note 21
Dividends

	2014 $'000	2013 $'000
A. Ordinary shares		
Final dividend declared out of profits of the Company for the year ended 30 June 2012 of 7.0 cents per fully paid share paid on 18 September 2012:		
Fully franked based on tax paid @ 30%		
7.0 cents per share	–	8,467
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2012 of 6.0 cents per fully paid share paid 19 March 2013:		
Fully franked based on tax paid @ 30%		
6.0 cents per share	–	7,406
Final dividend declared out of profits of the Company for the year ended 30 June 2013 of 7.0 cents per fully paid share paid on 16 September 2013:		
Fully franked based on tax paid @ 30%		
7.0 cents per share	8,640	–
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2013 of 7.5 cents per fully paid share paid 24 March 2014:		
Fully franked based on tax paid @ 30%		
7.5 cents per share	9,284	–
	17,924	15,873
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 8.0 cents per fully paid ordinary share, (2013 – 7.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 September 2014 out of retained profits at 30 June 2014, but not recognised as a liability at year end, is	9,910	8,640

C. Franked dividend

The franked portions of the final dividends recommended after 30 June 2013 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 2013.

	2014 $'000	2013 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2013 – 30%)	4,602	4,279

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 $4,247,000 (2013: $3,703,000).

Note 22
Key management personnel disclosures

D. Key management personnel compensation

	2014 $	2013 $
Short-term employee benefits	**2,431,947**	2,270,421
Post-employment benefits	**97,761**	87,528
Long-term benefits	**19,130**	49,866
Share-based payments	**1,000,339**	522,805
Balance 30 June	**3,549,177**	2,930,620

Detailed remuneration disclosures are provided in the Directors' report on pages 10 – 27 of the remuneration report.

Note 23
Remuneration of auditors

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

2014	$
A. Audit services	
Deloitte Touche Tohmatsu Australian firm:	
Audit and review of financial reports	192,500
Total remuneration for audit services	192,500
B. Non-audit services	
Non-audit-related services	
Deloitte Actuaries and Consultants Limited:	
Actuarial services	75,000
Total remuneration for non-audit-related services	75,000
Taxation services	
Deloitte Touche Tohmatsu Australian firm:	
Taxation services	1,644
Total remuneration for taxation services	1,644
Total remuneration for non-audit services	76,644

2013	
A. Audit services	
PricewaterhouseCoopers Australian firm:	
Audit and review of financial reports	235,150
Total remuneration for audit services	235,150
B. Non-audit services	
Audit-related services	
PricewaterhouseCoopers Australian firm:	
Other assurance services	–
Total remuneration for audit-related services	–
Taxation services	
PricewaterhouseCoopers Australian firm:	
Tax compliance services	23,900
Other tax services	18,800
Total remuneration for taxation services	42,700
Total remuneration for non-audit services	42,700

Note 24
Contingencies

Contingent liabilities

The Group had contingent liabilities at 30 June 2014 in respect of:

Guarantees

Guarantees given in respect of premises leases $760,459 (2013: $960,826).

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 2014 and 30 June 2013, there were no disputes or claims in progress that are expected to have a material financial impact on the Company.

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

Note 25
Commitments

Lease commitments

Non-cancellable operating leases

The Group leases various offices under noncancellable 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.

	2014 $'000	2013 $'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	**1,070**	942
Later than one year but not later than five years	**3,352**	3,135
Later than five years	**–**	200
	4,422	4,277

Note 26
Related party transactions

E. Parent entity

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

F. Subsidiaries

Interests in subsidiaries are set out in note 27.

G. Key management personnel

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

H. 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 27
Subsidiaries

Significant investments in subsidiaries

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

Name of entity	Country of Incorporation	Class of Shares	Equity holding * 2014 %	Equity holding * 2013 %
MC Loan Book Security Pty Limited	Australia	Ordinary	**100**	100
Beagle Finance Pty Limited	Australia	Ordinary	**–**	100
Help Me Choose Pty Limited	Australia	Ordinary	**100**	100
Mortgage Choice Financial Planning Pty Limited	Australia	Ordinary	**100**	100

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

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

Note 28
Events occurring after the balance sheet date

Dividend payment

Subsequent to year end, a final ordinary dividend of $9,910,000 (8.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2014 on 21 August 2014 to be paid on 15 September 2014.

Note 29
Reconciliation of profit after income tax to net cash inflow from operating activities

	2014 $'000	2013 $'000
Profit for the year	**19,799**	18,714
Depreciation and amortisation	**1,603**	1,760
Change in net present value of future trailing inflows	**(11,177)**	(6,643)
Change in net present value of future trailing outflows	**9,932**	1,621
Employee expense benefits – share-based payments	**1,324**	772
Interest received	**(538)**	(536)
Net loss/(gain) on sale of LoanKit	**(1,666)**	–
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(3,014)**	(1,371)
(Increase)/decrease in other operating assets	**(51)**	(379)
Increase/(decrease) in trade payables	**847**	293
Increase/(decrease) in other operating liabilities	**766**	502
Increase/(decrease) in provision for income taxes payable	**401**	(918)
Increase/(decrease) in deferred tax liabilities	**520**	1,173
Increase/(decrease) in other provisions	**346**	146
Net cash inflow from operating activities	**19,092**	15,134

Note 30
Earnings per share

	Consolidated	
	2014 Cents	2013 Cents
A. Basic earnings per share		
From continuing operations	**15.0**	15.2
From discontinued operation	**1.0**	0.3
Total basic earnings per share	**16.0**	15.5
B. Diluted earnings per share		
From continuing operations	**15.0**	15.2
From discontinued operation	**1.0**	0.3
Total diluted earnings per share	**16.0**	15.5

	$'000	$'000
Earnings used in calculating earnings per share		
Profit from continuing operations	**18,547**	19,034
Profit from discontinued operations	**1,252**	(320)
Profit for the year attributable to owners of the Company	**19,799**	18,714

	2014 Number	2013 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**123,663,700**	122,747,895
Adjustments for calculation of diluted earnings per share:		
Options	**–**	203,385
Share rights	**82,576**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**123,746,276**	122,951,280

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.

C. Share Rights Plan

Share rights granted to the CEO under the Mortgage Choice Share Rights Plan that have vested are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The share rights have not been included in the determination of basic earnings per share. Details relating to the share rights are set out in the Remuneration report.

Note 31
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 2013, 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. The fair value of market based conditions at grant date are independently determined using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the nontradeable 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 riskfree 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
2013									
1 May 2009	1 May 2019	$0.76	2,500,000	–	(2,500,000)	–	–	–	–
Weighted average exercise price			$0.76	–	$0.76	–	–	–	–

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2013 was $1.47.

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.

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

Details of performance shares in the Company provided as remuneration to 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.

C. Share Rights Plan

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

NOTE 31 SHARE-BASED PAYMENTS continued

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

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

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

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

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

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

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

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

Offer Date	Vesting date	Value	Balance at start of the year	Granted during the year	Vested during the year	Expired during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number	Number
2014								
9 December 2009	31 August 2013	$1.24	169,332	–	(169,332)	–	–	–
20 September 2010	3 September 2013	$1.17	189,699	–	(189,699)	–	–	–
20 September 2010	3 September 2014	$1.19	189,702	–	–	–	–	189,702
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	$0.78	229,925	–	–	–	–	229,925
14 September 2012	13 September 2013	$1.74	50,983	–	(50,983)	–	–	–
14 September 2012	12 September 2014	$1.74	50,983	–	–	–	–	50,983
14 September 2012	14 September 2015	$1.74	280,364	–	–	–	–	280,364
14 September 2012	14 September 2015	$1.08	229,380	–	–	–	–	229,380
23 September 2013	12 September 2014	$2.77	–	32,692	–	–	–	32,692
23 September 2013	14 September 2015	$2.77	–	32,692	–	–	–	32,692
23 September 2013	14 September 2016	$2.77	–	179,811	–	–	–	179,811
23 September 2013	14 September 2016	$1.68	–	147,125	–	–	–	147,125
Total			1,722,496	392,320	(461,111)	–	–	1,653,705
Weighted average price			$1.26	$2.36	$1.27	–	–	$1.52

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
2013								
9 December 2009	31 August 2012	$1.24	169,333	–	(169,333)	–	–	–
9 December 2009	31 August 2013	$1.24	169,332	–	–	–	–	169,332
20 September 2010	3 September 2012	$1.16	189,699	–	(189,699)	–	–	–
20 September 2010	3 September 2013	$1.17	189,699	–	–	–	–	189,699
20 September 2010	3 September 2014	$1.19	189,702	–	–	–	–	189,702
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	$0.78*	229,925	–	–	–	–	229,925
14 September 2012	13 September 2013	$1.26	–	50,983	–	–	–	50,983
14 September 2012	12 September 2014	$1.26	–	50,983	–	–	–	50,983
14 September 2012	14 September 2015	$1.26	–	280,364	–	–	–	280,364
14 September 2012	14 September 2015	$0.63	–	229,380	–	–	–	229,380
Total			1,520,915	611,710	(410,129)	–	–	1,722,496
Weighted average price			$1.15	$1.49	$1.21	–	–	$1.26

* During the 2013 financial year, the value of the TSR based performance shares granted on 16 February 2012 was corrected.

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 0.93 years (2013 – 1.22 years).

The model inputs for performance shares granted on 23 September 2013 included:

a/ performance shares are granted for no consideration and vest over a period of four years;

b/ grant date: 23 September 2013 (2013 – 14 September 2012);

c/ share price at grant date: $2.77 (2013 – $1.74);

d/ expected price volatility of the company's shares: 27.54% (2013 – 28.26%);

e/ expected dividend yield: 0% (2013 – 0%); and

f/ risk-free interest rate: 2.83% (2013 – 2.46%).

D. Expenses arising from share-based payment transactions

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

	2014 $'000	2013 $'000
Shares issued under PSP	**1,324**	772
	1,324	772

Note 32
Parent entity financial information

A. Summary financial information

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

	2014 $'000	2013 $'000
Balance sheet		
Current assets	**112,548**	109,739
Total assets	**353,085**	339,343
Current liabilities	**69,589**	65,926
Total liabilities	**249,856**	237,475
Shareholders' equity		
Issued capital	**4,604**	4,018
Share-based payments reserve	**2,210**	1,472
Retained profits	**96,415**	96,378
	103,229	101,868
Profit or loss for the year	**20,220**	19,944
Total comprehensive income	**20,220**	19,944

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 $760,459 (2013 – $960,826). 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 2014 or 30 June 2013.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2014

In the Directors' opinion:

a/ the financial statements and notes set out on pages 36 – 86 are in accordance with the Corporations Act 2001, including:

- i/ complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- ii/ giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of their performance, for the financial year ended on that date; and

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

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

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

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

Peter Ritchie
Director

Sydney
21 August 2014

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

Report on the Financial Report

We have audited the accompanying financial report of Mortgage Choice Limited, which comprises the balance sheet as at 30 June 2014, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 37 to 87.

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 gives a true and fair view and 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 consolidated 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. Those 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 company's preparation of the financial report that gives a true and fair view, 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 company'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.

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

Deloitte.

Auditor's Independence Declaration

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

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 2014 and of its performance for the year ended on that date; and

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

(b) the consolidated financial statements 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 27 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion the Remuneration Report of Mortgage Choice Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants
Sydney, 21 August 2014

Shareholder Information

FOR THE YEAR ENDED 30 JUNE 2014

The shareholder information set out below was applicable as at 18 August 2014

A. Distribution of equity securities

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

	Class of equity security Ordinary Shares
1 – 1,000	657
1,001 – 5,000	1,318
5,001 – 10,000	693
10,001 – 100,000	717
100,001 and over	43
	3,428

There were 74 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary Shares	
	Number held	Percentage of issued shares
Finconnect (Australia) Pty Ltd	20,611,785	16.65
J P Morgan Nominees Australia Limited	18,926,338	15.29
Ochoa Pty Ltd	9,620,000	7.77
Citicorp Nominees Pty Limited	9,437,159	7.62
National Nominees Limited	9,173,771	7.41
HSBC Custody Nominees (Australia) Limited	6,789,787	5.49
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	3,506,989	2.83
R G Higgins	2,094,226	1.69
Pacific Custodians Pty Ltd <Perf Share Plan Tst A/C>	2,001,466	1.62
SCJ Pty Ltd <Jermyn Family A/C>	2,000,000	1.62
HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super CorpA/C>	1,848,333	1.49
BNP Paribas Noms Pty Ltd <DRP>	1,727,846	1.40
Mr Ian Edwards & Mrs Josephine Edwards	675,000	0.55
Michael Russell	617,955	0.50
RBC Investor Services Australia Nominees Pty Limited <BkCust A/C>	506,593	0.41
Basscave Pty Limited	417,939	0.34
Mr David Madden	400,000	0.32
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	393,103	0.32
RBC Investor Services Australia Nominees Pty Limited <PISelect A/C>	338,796	0.27
Emu Super Fund Pty Ltd	315,000	0.25
	91,402,086	73.84

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held
Ordinary shares	
Commonwealth Bank of Australia*	26,735,816
R G Higgins and Ochoa Pty Ltd	15,231,215
FMR Corp. & Fidelity International Limited	15,166,586
INVESCO Australia Limited	9,199,996

* The relevant interests in 5,561,322 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 in relation to the acquisition of such securities

D. Voting rights

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

(a) Ordinary shares

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

(b) Options

No voting rights

ANNUAL GENERAL MEETING

The Annual General Meeting of Mortgage Choice Limited will be held at:
Mortgage Choice Limited
Level 10
100 Pacific Highway
North Sydney NSW
time 10am
date 29 October 2014

REGISTERED OFFICE

Level 10, 100 Pacific Highway
North Sydney NSW 2060

SHARE REGISTER

Link Market Services
Investor Information Line
Ph: 1800 054 388

AUDITOR

Deloitte Touche Tohmatsu
Chartered Accountants
Grosvenor Place
225 George 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

www.MortgageChoice.com.au

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

M J McCarney
General Manager Group Marketing

Mortgage Choice