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MORTGAGE CHOICE LIMITED

ABN 57 009 161 979

Appendix 4E
Preliminary Final Report
for the year ended 30 June 2018

Lodged with the ASX under Listing Rule 4.3A on 21 August 2018

Results for announcement to market

Comparison to previous corresponding period

	Compared To 30 June 2017		30 June 2018	
		% change		A$'000
Revenue from ordinary activities	up	9.0%	to	217,808
Profit from ordinary activities after tax attributable to members	down	80.9%	to	4,238
Net profit for the period attributable to members	down	80.9%	to	4,238
Earnings per share	down	80.9%	to	3.4 cents

Dividends

Details of dividends/distributions declared or paid during the year ended 30 June 2018 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
6 September 2017	18 September 2017	Final	9.0 cents	$11,246,000	9.0 cents	-
7 March 2018	22 March 2018	Interim	9.0 cents	$11,250,000	9.0 cents	-

A fully franked final dividend of 9.0 cents per share in respect of the year ended 30 June 2018 was declared on 20 August 2018 and is expected to be paid on 10 October 2018. The record date for determining entitlement to this dividend will be 3 September 2018.

	2018 Cents	2017 Cents
Net tangible assets per share	**61.7**	78.5

Other disclosure requirements

Additional ASX Appendix 4E (Listing Rule 4.3A) disclosures can be found in the 2018 Annual Report lodged separately from this document. This document should be read in conjunction with the 2018 Annual Report and any public announcements made in the period by the Company in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

This preliminary financial report under ASX Listing Rule 4.3A covers Mortgage Choice Limited and its controlled entities, and is based on the separately lodged consolidated financial statements and financial report which have been audited by Deloitte Touche Tohmatsu.

Cross reference Index for other disclosures Included in the 2018 Annual Report **Page/Reference**

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2018 Annual report

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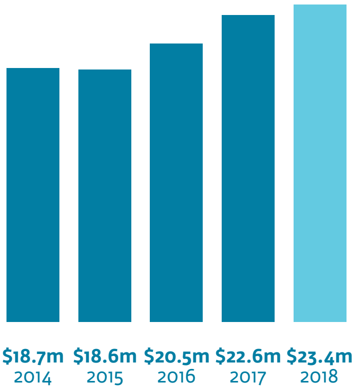
About Mortgage Choice

Our national network of mortgage brokers has access to a panel of over 20 leading lenders offering hundreds of loans. We have written over 600,000 home loans and continue to write a home loan every 15 minutes in Australia.

But our brokers also help customers to source credit cards, car loans, commercial loans, asset finance, deposit bonds, and risk and general insurances. They also refer customers to our growing network of Mortgage Choice financial advisers, who are committed to helping everyday Australians make better choices with their money.

Our network of franchises right across Australia all operate with a commitment to helping our customers make better choices for a better life via expert advice and great service.

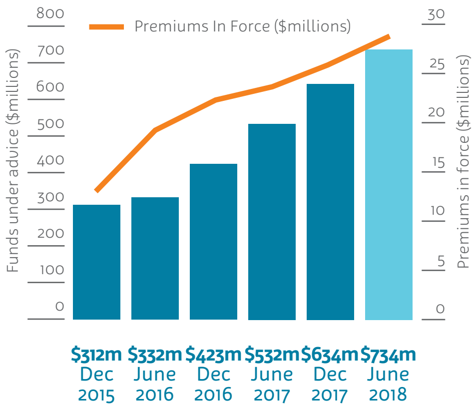
NPAT Cash $m

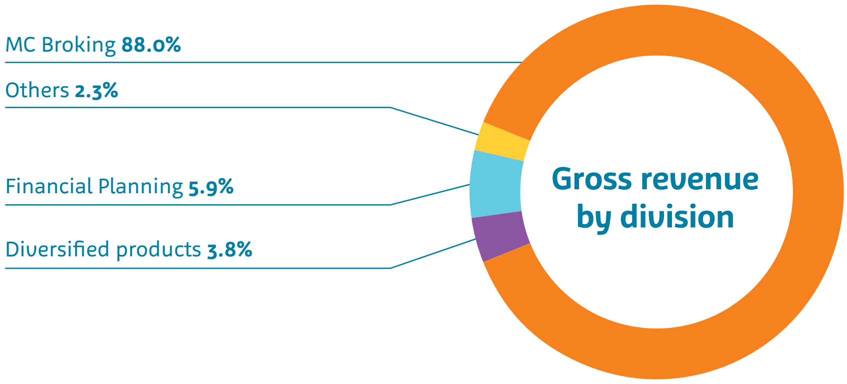


Loan book

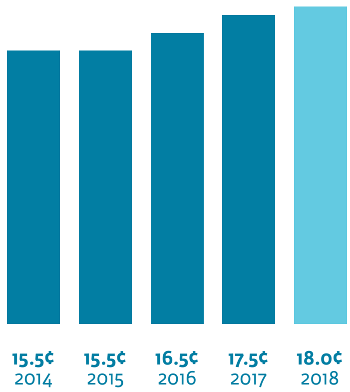
Total settlements $bn

Funds under advice and premiums in force $m





Total dividends ¢



> It has been a year of review and necessary change to recalibrate the business for a long term sustainable future.

Vicki Allen Chairman

Chairman's Report

Mortgage Choice continues to provide customers with a diversified financial services offering that consistently delivers shareholder returns.

The past year has been important in the evolution of Mortgage Choice and our ongoing vision to be Australia's leading provider of financial choices and advice, delivering exceptional value for our customers and profitability for our franchisees and shareholders.

It has been a year of review and necessary change to recalibrate the business for a long term sustainable future. We reconfirmed the valued role of quality brokers and financial planners in assisting customers achieve their financial goals. Shareholders have been patient and supportive of our business and the Board is focused on building long term shareholder value.

We undertake this activity against a backdrop of significant regulatory examination of the broking and broader financial services industry, including the Royal Commission into misconduct in the financial services industry, which continues to review industry practices and the current regulatory framework.

> Mortgage Choice performed solidly to deliver a final dividend of 9c per share, taking the full year dividend to 18c per share fully franked.

Strategic change

A significant focus for this past financial year has been a comprehensive review of the franchisee remuneration model. The resulting innovative structure announced in July 2018, represents a significant investment in the franchise network and rewards franchisees as they grow. In addition, the Company invested in our IT systems to improve broker efficiency. Towards the end of the financial year we commenced a program of operational efficiencies, which will continue into FY2019.

I was pleased to welcome Susan Mitchell as new Chief Executive Officer of Mortgage Choice, in April, following her successful nine-year tenure as our Chief Financial Officer. Susan's appointment and smooth transition into the role of CEO followed the departure of John Flavell, who during his three years with Mortgage Choice was effective in strengthening and growing the Company.

Susan has a deep understanding of the financial services sector as well as a strong and holistic view of our operations. She is well respected by our network of franchisees and is highly committed to evolve and build the business.

Board renewal

Mortgage Choice Board renewal is an ongoing priority and all directors continue to actively contribute to our Board deliberations. I would like to thank Deborah Ralston for her 13-years as Director during which she made a significant contribution to Mortgage Choice.

Over the last twelve months the Board has been strengthened by the addition of Sarah Brennan and Andrew Gale. Both bring deep financial services expertise through their complementary skills and experience.

The Board and I look forward to holding the 2018 Annual General Meeting in Sydney in October. The agenda will be outlined in the formal Notice of Meeting.

Heading into FY2019, I look forward to working with both the Board and the Executive team to continue to deliver on our strategic business priorities to drive positive results for the Group.

As we move in to our next phase as a business, on behalf of the Board, I would like to thank all members of the Mortgage Choice team, including franchisees, staff and the leadership team for their ongoing commitment to helping all Australians create a life of abundance.

Vicki Allen Chairman

18¢

full year fully franked dividend FY2018

> My number one priority as CEO is ensuring that the business has a platform for growth and long term sustainability.
>
> **Susan Mitchell** Chief Executive Officer

CEO Overview

In this landmark year for the broking industry I am delighted to be addressing shareholders for the first time as Chief Executive Officer for Mortgage Choice.

When I undertook the role I recognised the need to make some fundamental changes to the business. Following an extensive consultation program we introduced our new broker remuneration framework to provide Mortgage Choice with a platform for growth.

While challenging, it has also been rewarding to be able to implement these plans as CEO, as part of our comprehensive change program initiated in early 2018.

Further, the Board and leadership team are focused on delivering our business strategy to achieve long term sustainability for the Company to increase settlement volumes and regain market share in the medium and long term.

At Mortgage Choice our purpose is to help Australians make better decisions with their finances because we believe that better choices lead to a better life. As the broking industry continues to evolve, our well-known and trusted national brand continues to offer borrowers one of the best consumer propositions on the market.

Brokers are skilled professionals that understand complex loan processes. They currently write over 55.3% of mortgages in Australia because borrowers are actively seeking more choice, better customer service and expert advice in an increasingly tougher lending environment.

The 2018 financial year saw a slight correction in the housing market. However, this has been good news for first home buyers, whom after a period of affordability challenges, are now increasing their presence in the national housing market.

Market conditions for property investors may also encourage a comeback with the Australian Prudential Regulation Authority (APRA) announcing in April that it was scrapping its 10% cap on investment loans growth.

The Reserve Bank of Australia kept the official cash rate at the historic low of 1.50% throughout FY2018. However rising interest rates are predicted for 2019 and in the latter half of FY2018 we saw lenders make small out of cycle rate increases.

Interest rates are a primary force in the housing market's performance, although the tightening of credit availability, recent changes in lending policy, increases in wholesale funding costs and macroprudential regulatory changes, create a complex environment for borrowers and property sellers alike.

> All these factors combined resulted in solid home loan demand by long term standards, and this was reflected in ABS data across FY2018.

Looking ahead, I expect to see a combination of factors, such as historically low interest rates, easing property prices and access

to First Home Owners Grants, to maintain home loan demand.

Against this backdrop, the Australian economy has performed well in FY2018 with overall business conditions remaining buoyant, and the confidence in most industries remaining at or above average levels.

Employment growth is likely to drive improving wages, and our current population growth should support house prices in the medium term.

In May, the Federal Budget delivered a welcome boost to households by introducing income tax cuts, making Australian families better off by over $500 a year. The Treasurer also announced a plan for broader tax cuts starting in 2022, which from 2024 includes removing the 37% tax bracket and having the 32.5% tax bracket include those earning $200,000.

In a move to help working Australians build wealth, the Treasurer announced in May's Federal Budget that he will look to return an estimated $6 billion worth of lost superannuation to three million super fund members by 2020. APRA gained new regulatory powers that ensure Australians can switch Super funds without incurring exit fees. Job-changers with multiple 'lost super' accounts will stop paying fees and insurance premiums that eat away at the balance on each account. Australians under 25 will no longer be forced to take up life insurance cover within their super.

More flexibility has also been introduced to the management of self managed super funds (SMSFs). The maximum number of members allowed in SMSFs and small APRA funds will be increased from four to six from 1 July 2019. This will appease SMSFs who wish to increase the total number of funds available for investment.

Our offering remains robust in the face of regulatory headwinds

There are a number of regulatory headwinds driving change across the financial services industry at present.

The Royal Commission into Banking, Superannuation and Financial Services Industry formally began on 12 February 2018 with the commencement of public hearings.

This followed the Australian Securities and Investments Commission's (ASIC) detailed Review of Mortgage Broker Remuneration in 2017, which found that mortgage brokers play a very important role in the home loan market.

In response to ASIC's review, the mortgage broking industry established the Combined Industry Forum (CIF) to drive better customer outcomes through improved governance and remuneration practices in mortgage broking. Mortgage Choice continues to play a vital role in providing input and feedback to CIF regarding the implementation of recommendations.

$53.4b

Loan book

The Treasury and the Productivity Commission provided their reports to the Royal Commission in August 2018.

We look forward to Commissioner Hayne's interim and final reports, which will be published FY2019. I am confident that Mortgage Choice is ready to adapt as necessary in the face of any legislative changes and continue to provide a valued service to deliver positive outcomes for consumers.

Great Australian Dream

Broker market share continues to grow with 55.3% of home loans originated via a mortgage broker. This is not surprising given the increasing complexity of securing a home loan.

Our most recent whitepaper, "The Evolving Great Australian Dream" revealed that younger Australians increased foot traffic to brokers by 30% this year with 44% of 25-45 year olds consulting a mortgage broker first when buying a property.

Clearly borrowers continue to seek out professional help when making one of the biggest financial decisions of their lives.

With increased scrutiny on lending practices, mortgage brokers are best placed to provide advice to borrowers looking to secure housing finance and assist them in taking practical steps to improve their serviceability. This gives us great confidence as we look to the future.

Mortgage Choice continues to benefit from its diversification strategy

I am conscious of the developing needs of customers to access holistic financial advice delivered in a digital way. Consumers today lead financially complex lives in an unpredictable economic environment, and because life can change in an instant, Mortgage Choice provides access to a breadth of financial products and services.

Our investment in technology enables us to deliver a high quality online experience, while supporting our network of brokers and advisers to deliver customer service excellence.

By meeting the broader financial needs of our customers, our brokers and advisers can build stronger businesses to accelerate revenue growth through diversification.

Mortgage Choice Financial Planning revenue grew by 10.4% in FY2018 to achieve $11.3 million in gross revenue.

Dedicated to growth, the Company is well placed to expand and recruit quality advisers to grow the network and continue leveraging referrals from the national Mortgage Choice broker network.

Strategic business focuses provide a platform for growth

I was appointed CEO of Mortgage Choice in April 2018 following nine successful years as the Company's Chief Financial Officer, and over 25 years' financial services experience.

My number one priority as CEO is ensuring that the business has a platform for growth and long term sustainability. Core to this was the introduction of a new broker remuneration framework for our franchisees because despite the strength of our brand and our customer offering, market share has been declining. We believe this is because our broker remuneration model was not as competitive as it used to be.

Our new broker remuneration framework will provide franchisees with higher remuneration and reduced income volatility. The Company is confident the new model will enable franchisees to invest in their business while attracting new, high quality franchisees and loan writers to the network. This will provide a platform for growth and underpin the long term sustainability of Mortgage Choice.

We will continue to provide high levels of support for our franchisees including compliance, training, marketing, IT and business planning, for which we are renowned for in the industry. This year I advised the market that we are recalibrating our delivery by centralising services, to drive efficiencies.

In FY2018 the Company made a significant investment in innovative technologies. Over the last year we have invested $3.4m in our new Broker Platform to drive efficiencies for our brokers and help them deliver a better customer experience. We are also investing in an online help centre for franchisees, which will provide immediate help and assistance.

The January 2018 launch of our new website has made it easier for customers, to find

the information they are seeking, while providing franchisees with industry leading functionality for their individual minisites.

These technological advancements are supplemented by our award-winning marketing platform that helps generate ongoing business opportunities for our franchisees within our broader network of mortgage brokers and financial advisers.

Furthermore, these technology investments better enable customers to stay connected with the Mortgage Choice brand in an increasingly complex and competitive market.

Business outcomes

The cash NPAT for FY2018 is $23.4m up 3.3% on FY2017. The IFRS result NPAT of $4.2m includes a one-off negative adjustment of $28.5m after tax representing an adjustment to the NPV of trailing commissions payable as at 30 June 2018.

Focus areas for FY2019

Our vision is to be Australia's leading provider of financial choices and advice, delivering exceptional customer value and profitability for our franchisees and shareholders.

Our strategic intent for FY2019 is to build a platform for growth and long term sustainability and to deliver upon our key focus areas:

Remuneration

- Embed the new broker remuneration models with franchisees and finalise the review of adviser remuneration currently underway.

Operational efficiencies

- Undertake a departmental review of processes to increase efficiency whilst improving the support experience for brokers and advisers.
- Roll out of a new Broker Platform.
- Establish new core systems for Mortgage Choice Financial Planning.

Brand and customer experience

- Shift focus for marketing spend from pure lead generation to brand awareness and engagement to ensure long term brand health.
- Improve the online customer experience to create advocacy.

Recruitment

- Position Mortgage Choice as an aggregator of choice for potential franchisees and loan writers.
- Raise awareness of our new broker remuneration model and best-of-breed IT platforms.
- Recruit stand alone financial planning franchise owners.

Susan Mitchell

Susan Mitchell Chief Executive Officer

$23.4m
Cash NPAT

Mortgage Choice at a glance

Heritage

26 years of service

Helped over **600,000 people** with their home loans

43%+ of franchisees have been with Mortgage Choice for **more than 10 years**

Mortgage Choice Financial Planning **established 2012**

Performance

$23.4m cash net profit after tax

Loan book grew to **$54.6b**

Fully franked full year dividend of **18 cents**

Local

Mortgage Choice and our franchisees support a lot of local charities in Australian communities.

Here are a few examples:
Ronald McDonald House Charities (since 2011)

Jeans for Genes Day

Cancer Council's 'Australia's Biggest Morning Tea'

Friends with Dignity

White Ribbon Day

Daffodil Day

Distribution

449 Mortgage franchises

146 franchisees in shopfronts

39 Financial advisers

36 Financial planning franchises

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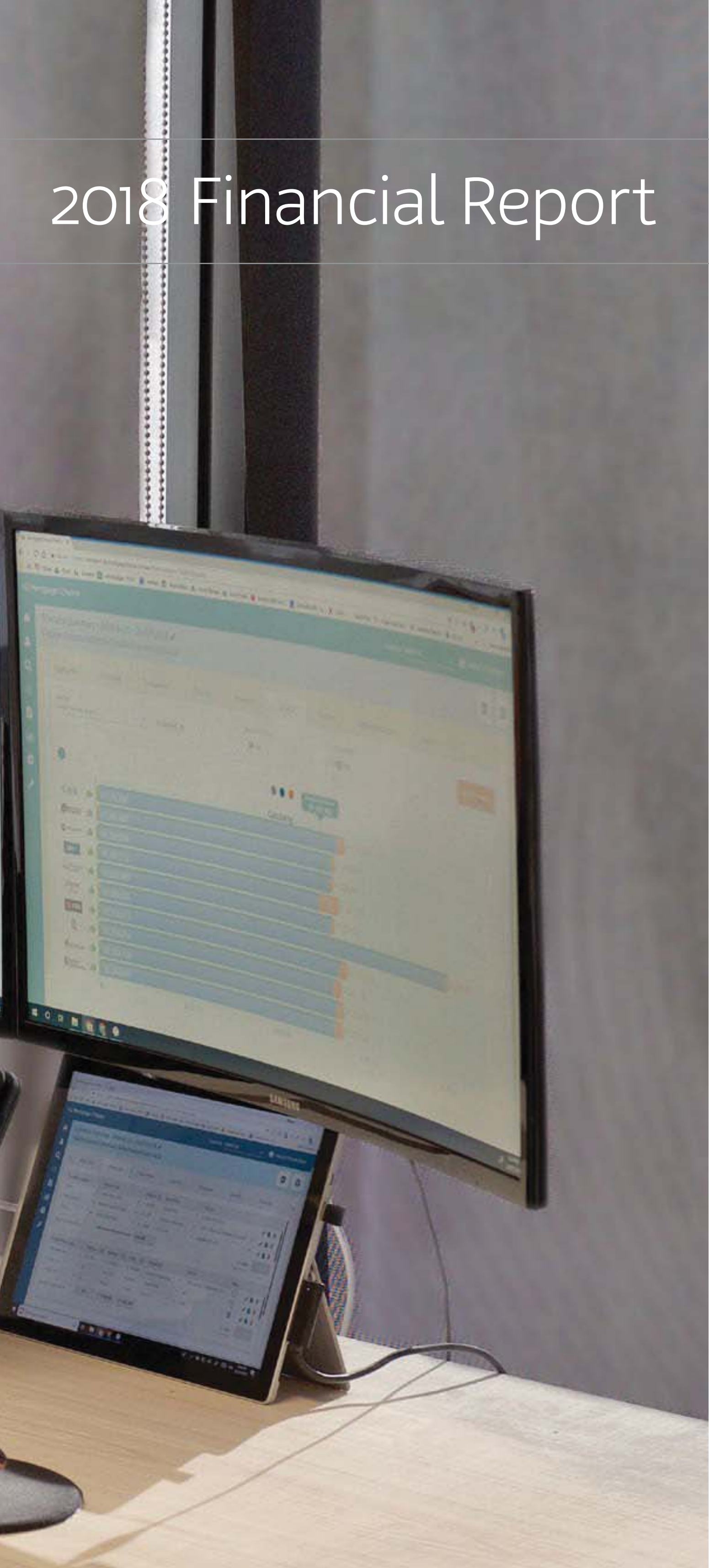


2018 Financial Report

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 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 20 August 2018.

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 the Company's website: www.mortgagechoice.com.au.

Directors' Report
for the year ended 30 June 2018

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 2018, hereafter referred to as "Mortgage Choice", "the Mortgage Choice Group", "the Company" or "the Group".

Directors

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

V L Allen
S J Brennan (*appointed 21 March 2018*)
S J Clancy
A C Gale (*appointed 21 March 2018*)
P G Higgins
R G Higgins
S C Jermyn
D E Ralston (*resigned 21 March 2018*)

Principal activities

Mortgage Choice is a full financial services organisation helping Australians with their financial needs by delivering a range of financial choices teamed with trusted expert advice. The Group's principal activities include:

Mortgage Broking

- The provision of assistance in determining the borrowing capacities of intending residential mortgage borrowers;
- The assessment, at the request of those borrowers, of a wide range of home loan products;
- The submission of loan applications on behalf of intending borrowers.

Other Credit Services

- The provision of assistance with personal loans, car loans, equipment finance, small business and commercial finance.

Financial Planning

- The provision of assistance in determining superannuation and wealth management strategies;
- Coaching and active management of the above mentioned strategies;
- The assessment of the customer's protection insurance needs;
- The submission of insurance policy applications on the customer's behalf; and
- Budgeting and cash flow management advice.

Dividends

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

A final ordinary dividend of $11.246 million (9.0 cents per fully paid share) was declared for the year ended 30 June 2017 on 23 August 2017 and paid on 21 September 2017.

An interim ordinary dividend of $11.249 million (9.0 cents per fully paid share) was declared for the half-year ended 31 December 2017 on 21 February 2018 and paid on 22 March 2018.

A final ordinary dividend of $11.250 million (9 cents per fully paid share) was declared for the year ended 30 June 2018 on 20 August 2018 to be paid on 10 October 2018.

Corporate Governance Statement

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

Review of Operations

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

Operating and Financial Highlights

Mortgage Choice delivered a cash NPAT of $23.4m up 3.3% on FY2017. The IFRS NPAT result of $4.2m includes a one-off negative adjustment of $28.5m after tax representing an adjustment to the net present value (NPV) of trailing commissions payable as at 30 June 2018.

The FY2018 financial results follow the introduction of the Group's new broker remuneration framework, which will provide franchisees with higher remuneration and reduced income volatility, enabling them to invest in their businesses.

The Group also made adjustments to the operating structure of the business and initiated an ongoing program to drive operating efficiencies across the business.

Mortgage Choice's loan book (including residential and commercial loans) increased by 2.3% to $54.6 billion.

The Group continues to benefit from its diversification strategy and Mortgage Choice Financial Planning revenue grew by 10.4% in FY2018 to achieve $11.3 million in gross revenue, while Funds Under Advice and Premiums in Force grew 37.8% and 15.1% respectively.

Mortgage Choice made a $3.4m investment in its new Broker Platform in FY2018 to drive efficiencies for brokers and help them deliver a better customer experience.

The Group achieved this result as a number of regulatory headwinds continue to drive change across the financial services industry.

Operating Review

Regulation

Regulatory headwinds continued in the FY2018, creating increasing broker scrutiny and identifying the need for industry improvements within the financial advice sector. Mortgage Choice has been actively involved in the Combined Industry Forum (CIF), a cross industry body coordinating responses to numerous inquiries and regulations impacting the industry. In the face of regulatory change, the Board is confident that the valued service our mortgage brokers and financial advisers have provided will prevail in the face of change, to continue to deliver positive outcomes for consumers.

New Broker Remuneration Model

As part of a company wide change program, Mortgage Choice underwent a period of consultation with its network of franchisees in FY2018, aimed at shaping a new remuneration model to increase their share of revenue and enable them to invest in their businesses.

The in-depth consultation process between the executive leadership team and franchisees played a crucial role in shaping the new model, which will underpin long term sustainable growth for Mortgage Choice. Its balance between broker remuneration and support services offered, is expected to attract new, high quality businesses to the Mortgage Choice franchise network to drive future growth.

Diversification

Throughout FY2018 Mortgage Choice continued to deliver on its objective to diversify its financial product suite, as we continue to build on our differentiated full financial services proposition.

Asset Finance / Product

Mortgage Choice expanded its range of financial solutions to provide consumers with increased choice across personal loans, deposit bonds, general insurances and home loans. The broadening of our panel successfully enabled us to effectively navigate changes in lenders' preferences and increased complexities in lending policies.

One of our core focuses for FY2018 was to expand our support for small-to-medium enterprise customers. The needs of these customers are broad and varying and there is high value in delivering personalised strategies that cater for both their business and personal finances.

Having a comprehensive suite of solutions in this area is key to fulfilling on the strategy, including commercial finance, competitive car and equipment finance products as well as integrating non-credit products that are still highly relevant, for example general insurances. We are well placed to serve the needs of these customers now and into the future.

Financial Planning

Mortgage Choice Financial Planning continued to build on its strong base achieving $11.3 million in gross revenue in FY2018 to deliver a profit of $362,000. The Company's financial planning arm revenue grew by 10.4%, while Funds Under Advice and Premiums in Force grew 37.8% and 15.1% respectively.

Dedicated to growth, the Company is on track to expand and recruit quality advisers to grow the network and continue leveraging referrals from the national Mortgage Choice broker network. We are proactively working with our adviser network to ensure they are prepared to meet the new educational standards, as determined by the Financial Adviser Standards and Ethics Authority (FASEA). This will further uphold our customer value proposition as a full financial services company.

Established in 2012, Mortgage Choice Financial Planning is well-placed to absorb the introduction of new regulation as the financial services industry continues to transition. Notably, our adviser businesses have been paid under a "hybrid" commission structure since the license was established, enabling a seamless transition for these businesses to the new Life Insurance Remuneration Act framework, when the transitional arrangements came into effect in January 2018.

Brand Presence

With our 26 year heritage and 449 franchises across Australia, the Mortgage Choice brand is one of the most recognised and reputable in the Australian financial services sector. Throughout FY2018 we continued to invest in our strategic marketing and communications programs to enable us to deepen relationships with customers, while positioning Mortgage Choice as the financial services brand of choice with Australians.

New Website

Re-establishing our core platform for customer engagement with the Mortgage Choice brand, we launched the new Mortgage Choice website in January 2018. Improving the website experience through implementation of conversion rate optimisation (CRO) and other key tools has made it easier for customers to find the information they are seeking, while providing franchisees with industry leading functionality for their individual minisites.

WebChat
We introduced the WebChat function to the new Mortgage Choice website to meet customer needs for instant online help. Streamlining customer response rates, the WebChat function has been well adopted by customers connecting with us via smartphone, tablet and desktop.

Extended customer communications program
Australians spend a significant amount of time online researching brands, products and services prior to contact or purchase. Building on the solid foundations laid in 2017 when the centralised customer communications program was delivered, in FY2018 we expanded the program. Essentially a lead generation initiative, the Mortgage Choice marketing team creates compelling content to provide existing customers with ongoing information and support. This is delivered via email through our CRM platform, to support our network of brokers across the country, keeping the Mortgage Choice brand top of mind with their local customers.

Brand awareness and engagement
Our 146-strong retail footprint flows out of Mortgage Choice's investment in key programs, such as financing fit-outs and rental assistance. These strategic focuses have enabled more franchisees to gain a greater presence on the high street.

Lead flow was solid in FY2018 as the Company initiated a strategic mix of sales and marketing activity. One of our core campaigns 'We're Locals Too', drove excellent results via targeted advertising and social media campaigns that further cemented our value proposition with Australians.

We also tested new media channels to drive greater brand awareness, these included Foxtel TV and YouTube, and we continued our radio advertising.

The Company also allocated substantial budget to broker lead generation through our collaborative program.

Delivering to consumers' appetite for compelling content, we also initiated a content strategy to engage customers who are in the research phase and not ready to speak to a broker or adviser. We provide valuable content in exchange for the customer's name and email address and continue to provide highly targeted, useful information to them via email.

Underpinning these activities, our investment in search advertising kept us front of mind with online customers seeking financial solutions.

Investment in technology
Investment in technology is a critical enabler to delivering a better customer, broker and adviser experience.

We built our new Broker Platform in FY2018, which was managed in-house by our team of technology experts, to increase broker productivity by significantly reducing data entry and the need for a broker to access multiple systems to write a home loan. A key professional support service to our brokers, this investment will significantly reduce the time previously taken to prepare a customer's home loan application and improve the customer experience.

We also commenced a review of our Financial Planning systems with the objective of ensuring that we have the right platform in place to increase efficiencies for our advisers and build scale.

As a part of our operational review and move to centralised support services, a new online help centre, supported by a call centre, will be launched to assist franchisees with general enquiries across administration, marketing and operations. This further investment in our IT will streamline processes across the business and thereby enable the head office team to focus on core business activities that drive revenue for the Company.

These technology investments create the underlying platform to drive efficiencies today and futureproof our business as the lending and financial advice environment becomes more complex and customers demand a more personalised, digital experience.

PR
The Corporate Affairs team continues to manage our strategic communications outreach to drive share of voice in media, and position the Mortgage Choice brand and our CEO, Susan Mitchell as industry leaders. The creation of national media opportunities via customer case studies, commissioned research and whitepapers support our advertising campaigns with quality media coverage that provides a broader narrative on the Mortgage Choice value proposition.

Distribution growth

Running a small business is rewarding but challenging and brokers and advisers are attracted to strong brands like Mortgage Choice because of the depth of support services provided to them to set up and grow their business.

This is even more critical in the current environment with increasing compliance requirements and tightening lending policies.

As one of Australia's leading franchisors for over 26 years, our brand is highly recognisable both on the high street and in the digital marketplace, where consumers are attracted to brands they know and trust.

We deliver the right solutions to the ever evolving financial needs of customers. Our financial advice business provides access to clear and transparent advice that is both affordable and relevant. Our brokers are dedicated to finding the right loan to suit an individual's need.

Partnering with Mortgage Choice provides new franchisees with an immediate business advantage. The quality of our training, compliance support and IT systems, provide brokers and advisers with the framework to build and run successful businesses that is second to none.

Mortgage Choice has made sizable investments in technology-based solutions, such as our new broker platform, to automate and streamline the home loan process thereby improving efficiencies and reducing the cost to serve.

Our coaching across loan submissions, business planning and management, and sales & marketing is highly valuable to franchisees.

The new broker remuneration model creates another compelling reason for brokers to select Mortgage Choice. Designed to underpin the long term sustainability of Mortgage Choice and provide a platform for growth, the new model will provide franchisees with higher remuneration and reduced income volatility so they can invest in their businesses.

New CEO appointed

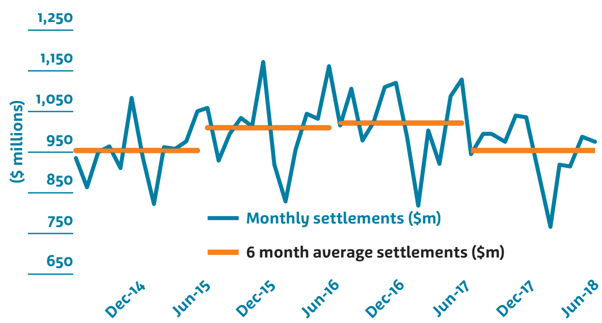
Susan Mitchell was appointed CEO of Mortgage Choice in April following her nine year tenure as CFO. This followed the resignation of John Flavell who was with the business 2015-2018 during which time he was effective in strengthening and growing the Group.

Ms Mitchell's key focuses in FY2018 were the successful introduction of the new broker remuneration model, new Broker Platform and the development of a core business strategy to drive growth and increase operational efficiencies across the broker and financial planning businesses.

Financial Review

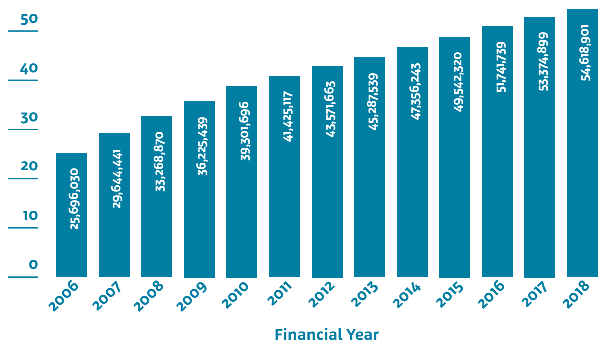
Our statutory profit decreased to $4.2 million with an adjustment to the NPV of future trailing commissions payable of $40.7m ($28.5m after tax), resulting from the new broker remuneration model. Our cash profit, which does not take future trailing commission to account, increased by 3.3% to $23.4m. Settlements for the year were $11.5 billion, down 7% on FY2017.

Settlements trend



As at 30 June, Mortgage Choice's total loan book (including residential and commercial loans) increased by 2.3% to $54.6 billion – up from $53.4 billion in FY2017.

Loan Book ($'000)



As in prior years, an actuarial review was conducted on the residential loan book. The review found the run-off rate of the loan book was significantly slower than the assumptions used in the valuation at 30 June 2017. Management determined that this required a positive balance sheet adjustment of $10.1m at year end to bring the valuation in line with the actual loan book position and assumed future run-off profile. The underlying total revenue before adjustment, is down 0.7% year on year. This is due to the 7% fall in settlements offset by an increase in revenue from diversified products and Mortgage Choice Financial Planning as well as the reduction in run-off experienced during the year. The table below shows the movement in the underlying statutory results year on year.

Underlying Statutory Results

	2018 $'000	2017 $'000
Operating Revenue		
Underlying operating revenue	**194,439**	195,870
Adjustment to NPV receivable for changes in run-off and other assumptions	**23,369**	3,927
Total operating revenue	**217,808**	199,797
Profit after tax		
Underlying result after tax	**25,641**	21,026
Adjustment to net NPV receivable for changes in run-off and other assumptions	**7,055**	1,151
Adjustment to valuation of loan book payable due to model changes	**(28,468)**	–
Total profit after tax	**4,238**	22,177

Cash results increased 3.3% to $23.4 million for the year. This growth in cash results was achieved through a mix of growth in gross profit and expense control with gross profit rising 1% and operating expenses falling 1%.

MC delivers record dividend

The growth in cash profits allows Mortgage Choice to increase its dividend to 18 cents for the year, up from 17.5 cents in FY2017.

Focus areas for FY2019

Our vision is to be Australia's leading provider of financial choices and advice, delivering exceptional customer value and profitability for our franchisees and shareholders.

Our strategic intent for FY2019 is to build a platform for growth and long term sustainability and to deliver upon our key focus areas:

Remuneration

- Embed the new broker remuneration models with franchisees and finalise the review of adviser remuneration currently underway

Operational efficiencies

- Undertake a departmental review of processes to increase efficiency whilst improving the support experience for brokers and advisers
- Roll out of a new Broker Platform
- Establish new core systems for financial planning

Brand and customer experience

- Shift focus for marketing spend from pure lead generation to brand awareness and engagement to ensure long term brand health
- Improve the online customer experience to create advocacy

Recruitment

- Position Mortgage Choice as an aggregator of choice for potential franchisees and loan writers
- Raise awareness of our new broker remuneration model and best-in-breed IT platforms
- Recruit stand alone financial planning franchise owners

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 2018 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 developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

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

Information on Directors

Vicki Allen

BBus, MBA, FAICD

Independent Non-Executive Chairman

Chairman of Nomination Committee and Member of Remuneration Committee

Director since 19 June 2017

Vicki Allen was appointed the Independent Non-Executive Chairman in July 2017. Vicki has over thirty years of senior executive and Board experience across the financial services and property sectors. During her executive career she held various senior roles at The Trust Company, National Australia Bank, MLC and Lend Lease Corporation. She has held a number of non-executive director roles in recent years and is currently a non-executive director of Bennelong Funds Management Limited, Bennelong Funds Management Group Pty Ltd and a number of entities in the BT Financial Group. She is a member of the Audit and Risk Committee of the NSW Ombudsman. Vicki is a Fellow of the Australian Institute of Company Directors and a Trustee Fellow of The Association of Superannuation Funds of Australia. Age 56.

Sarah Brennan

FFPA, GAICD

Independent Non-Executive Director

Member of Remuneration Committee and Chairman of the Mortgage Choice Financial Planning Investment Committee

Director since 21 March 2018

Sarah Brennan is an entrepreneur with over 25 years' experience in the financial services industry at an Executive, Consultant and Board level. She has an extensive background in the areas of strategy, innovation, professionalism and regulatory and corporate governance. Sarah founded Comparator, the leading provider of benchmarking to the Australian financial services market, which she then sold to CoreLogic. She has held senior roles at Citibank, MLC, Deutsche Bank and has provided consulting services across financial services and wealth management to both domestic and international clients. Age 51.

Sean Clancy

Dip Mkt FAICD

Independent Non-Executive Director

Chairman of Remuneration Committee and Member of Audit Committee

Director since 18 May 2009

With a sales and marketing background across many industries including banking, fast moving consumer goods, liquor, pharmacy, consumer electronics, telecommunications and hardware, Sean Clancy 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 Director and Chief Executive Officer of Transfusion Ltd, Chairman of Metropolis Inc., Touch to Buy and Campaign Express, Non-Executive Director of Gowing Brothers and of Whitecoat and Ambassador to Business Events Sydney. Age 58.

Andrew Gale

BA (actuarial major), MBA, FAICD, FIAA

Independent Non-Executive Director

Member of Audit and Nomination Committees. Chairman of Audit Committee from 20 August 2018.

Director since 21 March 2018

Andrew Gale is a qualified actuary with extensive knowledge of the financial services sector and has had a deep involvement in financial services regulatory issues in a range of capacities. He has over 35 years' experience in the industry, including roles as Executive Director with Chase Corporate Advisory, CEO and Managing Director for Count Financial Ltd, Managing Partner for Deloitte Actuaries and Consultants, and various senior executive roles at MLC and AMP.

Andrew has over 25 years' experience as a board director. He is a non-executive director for the NAB Advice & Licences Board (and of its constituent licensee entities), NULIS Nominees (Aust) Limited and Harper Bernays Limited. Age 61.

Peter Higgins

Non-Executive Director

Member of Audit Committee

Director since 30 November 1989

Peter Higgins is a co-founder of Mortgage Choice. He also is Executive Chairman of technology company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com and a Director of Argosy Agricultural Group Pty Ltd. Peter is also an Ambassador of the International Federation of Polo. Having been successfully self-employed for over 30 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 58.

Rodney Higgins

Non-Executive Director

Member of Nomination and Remuneration Committees

Director since 30 January 1986

Rodney Higgins is a 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 63.

Steve Jermyn

FCPA

Independent Non-Executive Director

Chairman of Audit Committee

Director since 24 May 2004

Steve Jermyn 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 Chairman of Guzman Y Gomez (Holdings) Pty Ltd, Chairman of Half the Sky Foundation Australia Ltd and Director of Ronald McDonald House Charities. Age 69.

Directors' interests

The table below sets out the Directors' interests at 30 June 2018:

Director	Particulars of Directors' interests in shares
V L Allen	60,000 ordinary shares
S J Brennan	0 ordinary shares
S J Clancy	120,000 ordinary shares
A C Gale	0 ordinary shares
P G Higgins	259,253 ordinary shares
R G Higgins	15,380,212 ordinary shares
S C Jermyn	2,500,000 ordinary shares

Company Secretary

The Company secretary is Mr David Hoskins BCom, FGIA, FCIS, GAICD, CPA. 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 2018, 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
V L Allen	9	9	*	*	4	4	4	4
S J Brennan[1]	2	2	*	*	*	*	*	*
S J Clancy	9	9	3	3	4	4	4	4
A C Gale[1]	2	2	*	*	*	*	*	*
P G Higgins	6	9	2	3	*	*	*	*
R G Higgins	9	9	*	*	2	4	3	4
S C Jermyn	9	9	3	3	*	*	*	*
D E Ralston	6	7	3	3	*	*	*	*

1 On 16 May 2018 Ms Brennan was appointed a member of the Remuneration Committee and Mr Gale appointed a member of the Audit Committee, however, no meetings of these committees were held between this date and 30 June 2018.

A = Number of meetings attended

B = Number of meetings held

* = Not a member of the relevant committee

Remuneration report

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

The report contains the following sections:

(a) Chairman's introduction

(b) Directors and executive KMP disclosed in this report

(c) Remuneration governance

(d) Executive remuneration policy and framework

(e) Executive remuneration for FY2018

(f) Relationship between remuneration and Mortgage Choice Limited's performance

(g) Non-executive Director remuneration

(h) Statutory disclosures

(i) Glossary

(a) Chairman's introduction

Dear Shareholders,

On behalf of the Board, I am pleased to present the FY2018 Remuneration Report to you.

As announced at our AGM in October 2017, the Board pledged to review the CEO and executive remuneration framework to not only ensure appropriate award for performance but that it is comparable to the market and in alignment with business strategy and creation of value for shareholders.

This review took into consideration a number of factors including the feedback received from investors who voted against the FY2017 remuneration, resulting in the Company receiving a "strike" for the FY2017 remuneration report. Whilst the reasons varied, a number of investors expressed dissatisfaction with the high levels of STI payment as a proportion of the maximum, and the absence of disclosure regarding the levels of achievement against targets. In response, this year we have described key STI KPIs, and indicated the level of achievement for each.

Remuneration for executive KMP has declined overall by 9%, reflecting pay changes from new appointments, changed responsibilities and annual market adjustments, (this is calculated on the maximum STI potential). For FY2018, the executive KMP STI payments, as a percentage of maximum STI were 18% less.

John Flavell resigned as CEO on 3 April 2018. Unvested STI and LTI lapsed on resignation.

Susan Mitchell was appointed the new CEO on 3 April 2018. As the CFO moving into the CEO position she will receive a lower remuneration than her predecessor, John Flavell. The achievement of STI has also been reset to a standard achievement at Target being 50% of base salary with the maximum potential of 80% for exceptional performance. Her contracted remuneration also includes a special one-off grant of share rights subject to 1 year and 2 year performance, as well as the regular long term incentive arrangement applicable to other executives. This special grant reflects the particular challenges faced by the industry, and Mortgage Choice, as it responds to changes required of broker remuneration, and the cyclical change the business is confronting.

The Board is committed to a transparent remuneration approach linked to company strategy and performance which balances the long term interests of shareholders and the need to attract and retain talented professionals who can deliver on the company goals and business objectives.

Sean Clancy
Chair of the Remuneration Committee

(b) Directors and executive KMP disclosed in this report

Table A: KMP during FY2018

Name	Position
Non-Executive Directors	
Vicki L Allen	Non-Executive Chairman
Sarah J Brennan[1]	Non-Executive Director
Sean J Clancy	Non-Executive Director
Andrew C Gale[2]	Non-Executive Director
Peter G Higgins	Non-Executive Director
Rodney G Higgins	Non-Executive Director
Stephen C Jermyn	Non-Executive Director
Deborah E Ralston[3]	Non-Executive Director
Executive KMP	
Susan R Mitchell (from 3 April 2018)[4]	Chief Executive Officer
John L Flavell (to 3 April 2018)[4]	Chief Executive Officer
Susan R Mitchell (to 3 April 2018)[4]	Chief Financial Officer
Neill C Rose-Innes	General Manager – Distribution
Melissa J McCarney	General Manager – Group Marketing
Emma A Dupont-Brown	General Manager – Product
Tania J Milnes	General Manager – Financial Planning
Marie J Pitton	General Manager – Human Resources
Vincent C ten Krooden	Head of IT

1 Ms Brennan was appointed as a Director on 21 March 2018.

2 Mr Gale was appointed as a Director on 21 March 2018.

3 Ms Ralston retired from the Board on 21 March 2018.

4 Ms Mitchell was appointed Chief Executive Officer of the company on the resignation of Mr Flavell on 3 April 2018. The Company's Financial Controller, John Stevenson, was appointed Acting Chief Financial Officer, however, Ms Mitchell has retained the key decision making duties and as such, Mr Stevenson is not considered a KMP.

(c) Remuneration Governance

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

Remuneration Governance Framework

Board

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

OVERSEE AND DELEGATE

RECOMMEND AND INFORM

Remuneration Committee

Holds primary responsibility for remuneration governance.

Makes recommendations to the Board on:

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

Seeks advice from independent remuneration consultants.

The Corporate Governance Statement, which can be found on the Mortgage Choice website (at https://www.mortgagechoice.com.au/about-us/shareholder-centre/corporate-governance.aspx) provides information on the role and composition of the Remuneration Committee.

ENGAGE

ADVISE

Remuneration Consultants

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

During FY2018, the Remuneration Committee engaged the services of AON Hewitt to review and provide guidance on the Executive Team's remuneration framework.

Under the terms of the agreement, AON Hewitt provided remuneration recommendations and was paid $21,000 plus GST for their services.

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

- AON Hewitt was engaged by and reported directly to the Chair of the Board and Remuneration Committee;
- The agreement for the provision of remuneration consulting services was executed by the Chair of the Board and the Remuneration Committee under the delegated authority of all Board members;
- The report containing remuneration recommendations was provided by AON Hewitt directly to the Chair of the Board and the Remuneration Comittee; and
- AON Hewitt were permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives.

This allows the Board to be satisfied that the recommendations are made free from undue influence from any members of the KMP.

(d) Executive remuneration policy and framework

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

Executive Remuneration Policy & Framework

Remuneration policy

Aim to ensure that remuneration practices are:

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

Fixed

Fixed Remuneration

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

Performance based

Short Term Incentive ("STI")

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

Long Term Incentive ("LTI")

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

Total remuneration = Fixed Remuneration + STI + LTI

CEO Remuneration

The Company appointed a new CEO, Susan Mitchell, in April 2018. Her remuneration is lower than that of her predecessor, John Flavell. Her remuneration is as follows:

Base Salary: $550,000

Maximum STI: $440,000 (50% at target to a maximum of 80% at stretch performance)

Maximum LTI: $275,000

Maximum Total Remuneration: $1,265,000 based on target being achieved (plus Superannuation in accordance with the superannuation guarantee legislation)

In accordance with Susan's employment agreement, she will receive a special one-off grant of 90,000 performance rights which will vest in two equal tranches in April 2019 and April 2020 subject to achievement of performance criteria to be set by the Board. This special grant reflects the particular challenges faced by the industry, and Mortgage Choice, as it responds to changes required of broker remuneration, and the cyclical change the business is confronting.

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

Table B: Remuneration mix

	Fixed	Performance Based	
Position	**Base remuneration**	**Maximum STI opportunity**	**Maximum LTI opportunity**
CEO	45%	34%	21%

John Flavell, the outgoing CEO, received a payment of $568,528, six months' pay in lieu of notice and $250,000 settlement of all incentive entitlements. Unvested STI and LTI lapsed on resignation.

(e) Executive remuneration for FY2018

Fixed remuneration

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

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

Short-term incentives

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

Table C: Summary of FY2018 STI arrangements

What is the STI plan?	The STI plan is an incentive plan under which participants are eligible to receive an annual award if they satisfy pre-determined performance criteria. The criteria are designed as a balanced scorecard to deliver against the Company's strategic and financial goals as well as motivate and reward high performance. This aligns the executives' interests with the Company's performance.
Who can participate?	The CEO and other executive KMP are eligible to participate in the STI plan.

What is the maximum opportunity for executives?	**Susan Mitchell:** For FY2018, the CEO's maximum STI opportunity is 80% of fixed remuneration. John Flavell: For FY2018, the CEO's maximum STI opportunity was 90% of fixed remuneration. (This was forfeited as Mr Flavell resigned prior to completing the required 12 months service and performance period.) The STI opportunity for other executive KMP is structured as a target STI of between 20% and 32% of base salary. Target STI may be exceeded if an individual exceeds his or her own KPIs. There is no predetermined maximum opportunity. At the Board's sole discretion, the STI pool may be subject to a group modifier based on the Company's cash NPAT as compared to the annual target determined by the Board. An increase in the pool may allow KMP to receive STI in excess of target. The group modifier is applicable to the CEO but not in excess of her maximum STI opportunity. The group modifier for FY2018 was set at 1.
Is there a gateway performance requirement before any incentive is paid?	Yes, the Board will not authorise the payment of STI to KMP unless a minimum cash NPAT threshold has been achieved. The gateway requirement was met.
What is the performance period?	The performance period is 1 year and aligns with the financial year. For FY2018, the performance period was 1 July 2017 – 30 June 2018.
What are the requirements for an STI award to be made?	STI awards will be paid to participants where: • the executive has been continuously employed until the end of the relevant financial year; • the executive has satisfied his or her individual KPIs to a minimum standard; and • the Company has achieved a minimum profit threshold.
How does the group modifier work if the Company does not achieve its profit target?	The group modifier will reduce the STI pool if the Company does not achieve its profit target. This means that STI payments are at risk, and vary with the Company's capacity to pay.

What are the performance conditions for the CEO?

Susan Mitchell: Over the three month term to the 30 June 2018, the incoming CEO was assessed against the following key measure in support of the Group's business objective to drive profitability for the benefit of our franchise network and shareholders:

Scorecard Category	Weighting	Measurement	Achievement	Comments
Increase & Diversify Franchise Revenue & Asset Growth	100%	Review, design and implement a new and competitive Broker Remuneration Model Delivery of initiatives, by financial year end, that will improve the overall morale and network engagement		The Board recognises the effort and commitment in ensuring the delivery of a new and competitive Broker Remuneration model that will help enable brokers to increase their profitability, as well as to help Mortgage Choice to attract new, high quality brokers to the network.

Former CEO, John Flavell: The key measures that were set for John Flavell were in support of the Group's strategy and business objectives that related to cash results and the successful implementation of a series of strategic objectives including:

- Increase and diversify franchisee revenue and asset growth
- Deeper customer relationships
- Distribution growth
- NPAT growth
- Corporate governance

His individual goals/KPIs that were linked to above were broken down to:

Scorecard Category	Weighting	Measurement	Achievement	Comments
Financial Outcome:	50%	Company Cash NPAT		Note: The service and performance period for John Flavell was not completed for the FY2018 period, so eligibility for STI assessment and payment was forfeited.
Increase & Diversify Franchise Revenue & Asset Growth	5%	Achievement of MCAF Network Utilisation targets		
	10%	Achievement of targets set for Mortgage Choice Home Loans settlement growth		

What are the performance conditions for the CEO? (continued)

Scorecard Category	Weighting	Measurement	Achievement	Comments
Deeper Customer Relationships	5%	Achievement of targets set for home loan leads		Note: The service and performance period for John Flavell was not completed for the FY2018 period, so eligibility for STI assessment and payment was forfeited.
	5%	Achievement of targets set to increase Prompted Brand Awareness		
Distribution Growth	5%	Achievement of targets set to increase Mortgage Choice Financial Planning referrals		
	5%	Achievement of growth targets set for new Franchise Greenfields		
Governance Compliance	10%	Delivery of specific initiatives that will enhance compliance capabilities across both AFSL and ACL		
	5%	Delivery of specific initiatives to improve quality of Financial Planning advice		

Key: Percentage of achievement against targets set:

Exceeded: >105%

Achieved: 95% – 105%

Partly achieved: 85% – 94.9%

Not Met: <85%

What are the performance conditions for other executive KMP?

Other executive KMP had four areas of strategic focus in support of the goals and business objectives for FY2018:

- Increase and diversify franchisee revenue and asset growth
- Deeper customer relationships
- Distribution growth
- NPAT growth

KPIs included the same profit target as the CEO as well as specific operational targets closely aligned with the four areas of strategic focus in the form of a balanced scorecard.

What are the performance conditions for other executive KMP? (continued)

Scorecard Category	Weighting	Measurement	Achievement
Financial Outcome:	20% – 50%	Company Cash NPAT	
	5% – 10%	Mortgage Choice Financial Planning cash NPAT	
Increase & Diversify Franchise Revenue & Asset Growth	10% – 45%	Introduction of new Broker Remuneration Model that aims to increase franchisee profitability	
		Achievement of targets set to increase Diversified Revenue	
		Achievement of targets set for home loans settlement growth	
		Achievement of targets set for home loan leads	
Deeper Customer Relationships	5% – 30%	Delivery of customer focused initiatives including the customer contact nuturing campaign	
		Achievement of targets set to increase Prompted Brand Awareness	
Distribution Growth	10% – 45%	Delivery of new online functionalities in broker platform designed to improve franchisee productivity	
		Achievements of growth targets set for new Franchise Greenfields	

Key: Percentage of achievement against targets set:

Exceeded: >105%

Achieved: 95% – 105%

Partly achieved: 85% – 94.9%

Not Met: <85%

How is performance assessed?

The Remuneration Committee assesses the CEO's performance against KPIs and determines the CEO's STI award (if any). For other executive KMP, this assessment is completed by the CEO and approved by the Remuneration Committee. Other executive KMP may receive more or less than their target STI, depending on their performance against their KPIs and their relative performance compared to other participants.

How is the STI pool calculated?	STI awards are paid out of a defined STI pool. The STI pool is created based on the combined value of the STI participants' target STI, excluding the CEO. Funds forfeited by one participant, due to the failure to achieve individual KPIs, are available to cover the excess achievements of another participant so long as the pool in total is not exceeded. Should the total STI award determined be smaller than the STI pool, any remaining funds would be released to profit. At the Board's discretion, the STI pool may be subject to a group modifier based on the Company's profit as compared to the target determined by the Board. This would cause the final STI awarded to be increased or decreased by the group modifier based on the Company's achievement of the profit target for the year. The group modifier is applicable to the CEO's STI award but not in excess of her maximum STI opportunity. The group modifier aligns the STI outcome with the Company's financial objectives. If a cash NPAT target is exceeded, executives are eligible to share a percentage of the additional value created for shareholders. Likewise if a cash NPAT target is missed but the profit gateway is exceeded, executives are penalised even if individual KPIs are achieved. The group modifier for FY2018 is set at 1.
How is reward delivered under the STI Plan?	Any STI awarded to the CEO is delivered 50% in cash and 50% in performance rights. Vesting of performance rights is deferred for up to two years. The new CEO's entitlement commenced on the date of her appointment. Further details regarding the deferred component of the CEO's STI award are set out below. For other executives, any STI awarded is paid 100% in cash. Cash STI awards are paid following the signing of the Annual Report each year. For FY2018, the report will be signed on or around 20 August 2018.
Is there discretion to adjust STI awards?	In limited circumstances, the CEO may adjust the portion of the STI awarded to executive KMP (other than herself).
Deferred STI arrangements for the CEO	
How do the deferred STI arrangements work?	If the CEO is granted an STI award, 50% is delivered in the form of performance rights granted under the Company's Share Rights Plan. The number of performance rights granted is determined by dividing 50% of any STI awarded to the CEO by the volume weighted average price (VWAP) of shares in the Company traded on the ASX over the 5 trading days prior to the grant. Performance rights are offered at no cost to the CEO. Subject to the vesting conditions being met (see below), the CEO will be allocated one share for every performance right that vests, plus the number of shares that would have resulted from dividend reinvestment during the vesting period. Shares may be sourced on-market, from a new issue of shares or from shares held by the trustee of the Company's employee share plan trust. In certain circumstances the Board has the discretion to pay a cash equivalent amount in lieu of an allocation of shares.

What are the vesting conditions applicable to the performance rights?	Performance rights are subject to a continuous service condition. No other performance conditions are applicable on the basis that challenging performance conditions relating to the STI award were met before any performance rights were granted. Vesting of performance rights occurs as follows: • 50% are deferred for 12 months after the end of the STI performance period; and • 50% are deferred for 2 years after the end of the STI performance period. For FY2018, this means that 50% of the performance rights granted to the CEO will vest in September 2019 and the remaining 50% will vest in September 2020 following the approval the financial statements for the related period and subject to her continued employment. As Susan Mitchell was appointed to the position of CEO on the 3 April 2018, as such any STI entitlement as CEO since her commencement will be calculated on a pro-rata basis, as well as the STI she would have received while in the CFO position.
What rights are attached to the performance rights?	Performance rights do not carry any voting or dividend rights, however shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares.
Does the Board have discretion to clawback the award?	Performance rights may be forfeited if a material financial misstatement is uncovered relating to the year of the original STI award.
What happens if the CEO ceases employment?	The CEO will forfeit unvested performance rights on cessation of employment with the Company unless cessation results from death, total and permanent disability, retirement or redundancy as determined by the Board in its absolute discretion. In these circumstances the Board may, in its discretion, determine the treatment of any unvested performance rights.
What restrictions apply?	The CEO is prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, all shares allocated on vesting can only be dealt with in accordance with the Company's Share Trading Policy.

Long term incentives

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

Table D: Summary of FY2018 LTI arrangements

What is the LTI plan?	The LTI plan awards executives for achieving specified performance conditions which underpin sustainable long term growth. The Company believes that granting performance based equity to its executives under the LTI plan is an effective way of aligning the interests of executives with shareholders.
Who can participate?	CEO and other executive KMP are eligible to participate in the LTI plan. Subject to the Board's discretion, grants are made annually to executives.
What is the maximum opportunity for executives?	As the former CEO, John Flavell, departed the business on 3 April 2018, per the Company's Share Rights Plan offer, he forfeited any rights held under the Performance Rights Plan. Note: For FY2019, the new CEO, Susan Mitchell's maximum LTI opportunity will be 50% of base salary. For all other executive KMP, the maximum LTI opportunity is between 0% and 30% of base salary.

How is reward delivered under the LTI Plan?	LTI awards are delivered in the form of performance share rights granted under the Company's Share Rights Plan. The number of performance rights to be allocated to an executive is determined by dividing the executive's maximum LTI opportunity by the volume weighted average price of shares in the Company traded on the ASX over the 5 trading days prior to the grant. Shares allocated in satisfaction of the vesting of performance rights may be sourced on-market or from a new issue of shares. Performance rights are offered at no cost to the executives.
What is the performance period?	Performance is measured over a 3 year performance period. Following testing, vesting of performance shares rights (if any) occurs in September of each year.
What are the vesting requirements for an LTI award?	In order for an LTI award to vest: • the executive must be continuously employed by the Group until the vesting date (unless service ends due to death, disability, redundancy or other exceptional circumstances); and • performance conditions must be met (see below).
What are the performance conditions?	Performance share rights are divided in two equal tranches: • 40% of the performance share rights are subject to a relative TSR performance hurdle (the "TSR component"); and • 60% of the performance share rights are subject to a performance hurdle based on cash earnings per share ("EPS") growth on a compound annual growth basis with target performance consistent with the Company's strategic plan (the "EPS component"). Further details about each performance hurdle are set out below.

Relative TSR hurdle

TSR is the percentage increase in the Company's share price plus reinvested dividends, expressed as a percentage of the initial investment, and reflects the increase in value delivered to shareholders over the performance period. The relative TSR comparison group is comprised of companies within the ASX Financials sector with a market capitalisation between $40 million and $2 billion as at 31 August 2017, excluding illiquid stocks. The performance period is 1 September 2017 – 31 August 2020. Vesting (if any) will occur in September 2020.

The specific Comparator Group for the Performance Rights Plan offers made in FY2018 is detailed in the Glossary at the end of this Remuneration Report.

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

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

What are the performance conditions? (continued)	**Cash EPS growth hurdle** Cash EPS growth is based on cash profits as presented to the market and stated in the notes of the Company's audited statutory accounts and the average number of ordinary shares on issue during the performance period. Growth is measured using the compound annual growth rate (CAGR). The performance period is 1 July 2017 – 30 June 2020. Vesting (if any) will occur in September 2020. Cash profits are calculated by adjusting audited statutory profits for trail commission recognised on a net present value basis and share based remuneration expense. The following vesting schedule shows the proportion of the EPS component that will vest for various performance levels.

CAGR of cash EPS over the performance period	% of EPS component that vests
3% (threshold)	40%
Between 3% and 6%	Pro rata vesting between 40% and 100%
At or above 6%.	100%

What happens if an executive ceases employment?	Executives will forfeit unvested performance rights on cessation of employment with the Company unless the cessation results from death, redundancy, disablement, retirement or other special circumstances, in which case, unvested performance rights may vest at the Board's discretion.
What restrictions apply?	Executives are prohibited from entering into any hedging (or risk reduction) arrangements in relation to unvested performance rights. In addition, on vesting allocated shares can only be dealt with in accordance with the Company's Share Trading Policy.
Is there discretion to adjust awards?	As per the Performance Rights Rules, the Board has absolute and unfettered discretion in exercising any power or discretion concerning the Share Rights Plan. If the Board determines that a participant has acted fraudulently or dishonestly; has breached his or her obligations to the Group; or is knowingly involved in a material misstatement of financial statements ; any shares to which the participant may have become entitled at the end of the performance period, and any rights held by the participant under the Performance Rights Plan are forfeited by the participant.

(f) Relationship between remuneration and Mortgage Choice Limited's performance

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

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

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

Tranche 1: EPS Component

LTI grants made under the PSP from FY2014 to FY2017 and the PRP since FY2018 have been subject to cash EPS growth hurdle. The following table shows the Company's cash EPS results in FY2018 and the previous four financial years:

Table E: Cash EPS for FY2014 – FY2018

Financial Year	Cash EPS (cents per share)
2014	16.2
2015	15.0
2016	16.5
2017	18.1
2018	18.7

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

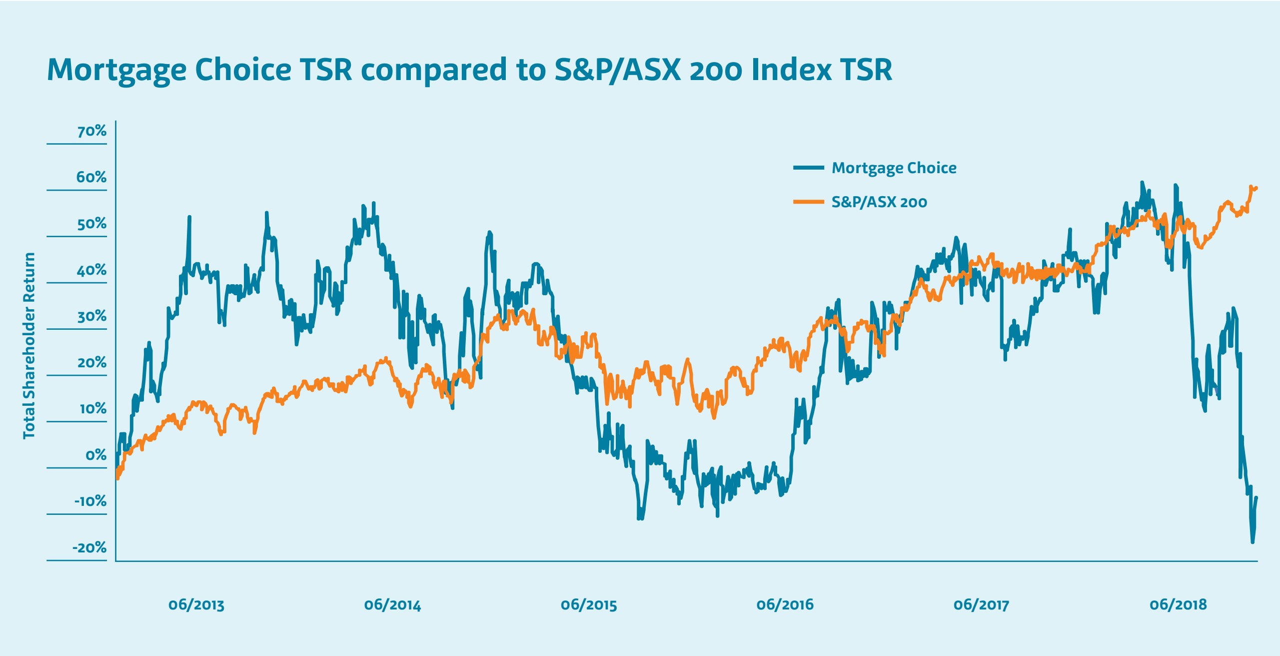
Tranche 2: TSR Component

LTI grants made under the PSP from FY2014 to FY2017 and the PRP since FY2018 have also been subject to a relative TSR performance hurdle which compares the Company's TSR against the TSRs of comparator groups of companies. TSR is the percentage increase in the Company's share price plus reinvested dividends and reflects the increase in value delivered to shareholders over the period. The following table shows the Company's TSR expressed as a percentage of the opening share price for each period. The table also shows the opening and closing share price and dividends paid in FY2018 and the previous four financial years:

Table F: Share price movements, dividends and TSR for FY2014 – FY2018

Financial Year	Opening share price $	Closing share price $	Dividends paid during year (cents)	TSR
2014	2.13	2.84	14.5	41%
2015	2.85	2.30	15.5	-14%
2016	2.30	1.95	16.0	-8%
2017	1.95	2.15	17.0	19%
2018	2.15	1.42	18.0	-26%

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 2018.



Source: Guerdon Associates

(g) Non-Executive Director remuneration

Policy

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

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

Non-executive Directors do not receive any short-term cash incentives or share-based payments; nor do they receive additional payments for representation on Board Committees other than the chairmen of the Audit Committee, the Remuneration Committee and the Mortgage Choice Financial Planning Pty Ltd Investment Committee.

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

Fee levels and fee pool

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

The following table shows the annual fees payable to the Chairman and Non-executive Directors as at 30 June 2018:

Table G: Non-executive Director fees

Role	Fees
Chairman	$145,000
Non-executive Director	$95,000
Fees for Chairman of the Audit Committee[1]	$10,000
Fees for Chairman of the Remuneration Committee[1]	$10,000
Fees for Chairman of Mortgage Choice Financial Planning Pty Ltd Investment Committee[1]	$20,000

1 Commencing 16 May 2018. Prior to this only the Chairman of the Mortgage Choice Financial Planning Committee received an annual fee of $30,000

Fees paid to the Chairman and the Non-executive Directors take into account the demands made on, and the role and responsibilities of, the Directors. The Board reviews fees paid to Non-executive Directors periodically. There were no other changes to level of Directors fees in FY2018.

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

(h) Statutory disclosures

The following table sets out the statutory disclosures required under the Corporations Act 2001 (Cth) for the 2017 and 2018 financial years for Directors and executive KMP and has been prepared in accordance with the Australian Accounting Standards.

Table H: Statutory remuneration table

	Short-term benefits			Post-employment benefits	Long term benefits		Share-based payments		
Name	Cash salary, fees and annual leave $	STI $	Non-monetary benefits $	Superannuation $	Long service leave $	Termination benefits $	Deferred STI and Other $	Performance Shares and Rights $	Total $
Non-Executive Directors									
V L Allen, Chaiman									
FY2018	148,123	–	–	14,072	–	–	–	–	162,195
FY2017	3,123	–	–	297	–	–	–	–	3,420
S J Brennan (*from 21 March 2018 to 30 June 2018*)[1]									
FY2018	29,149	–	–	2,769	–	–	–	–	31,918
S J Clancy[2]									
FY2018	96,295	–	–	9,148	–	–	–	–	105,443
FY2017	95,000	–	–	9,025	–	–	–	–	104,025

Name	Short-term benefits Cash salary, fees and annual leave $	STI $	Non-monetary benefits $	Post-employment benefits Super-annuation $	Long term benefits Long service leave $	Termination benefits $	Share-based payments Deferred STI and Other $	Perf-ormance Shares and Rights $	Total $
A C Gale *(from 21 March 2018 to 30 June 2018)*[2]									
FY2018	29,082	–	–	–	–	–	–	–	29,082
P G Higgins									
FY2018	95,000	–	–	9,025	–	–	–	–	104,025
FY2017	95,000	–	–	9,025	–	–	–	–	104,025
R G Higgins									
FY2018	95,000	–	–	9,025	–	–	–	–	104,025
FY2017	95,000	–	–	9,025	–	–	–	–	104,025
S C Jermyn[4]									
FY2018	96,295	–	–	9,148	–	–	–	–	105,443
FY2017	95,000	–	–	9,025	–	–	–	–	104,025
D E Ralston *(from 1 July 2017 to 21 March 2018)*[3]									
FY2018	93,750	–	–	8,906	–	–	–	–	102,656
FY2017	125,000	–	–	11,875	–	–	–	–	136,875
Other key management personnel									
S R Mitchell[6]									
FY2018	375,077	127,653	5,066	20,049	49,846	–	4,379	33,004	615,074
FY2017	300,609	99,411	4,547	19,616	7,240		–	68,364	499,787
J L Flavell *(from 1 July 2017 to 3 April 2018)*[7]									
FY2018	479,622	–	5,565	20,049	(3,878)	568,528	(161,543)	(315,735)	592,608
FY2017	580,322	266,220	4,412	19,616	2,647		283,913	216,903	1,374,033
N C Rose-Innes									
FY2018	327,230	75,624	5,186	20,049	9,145	–	–	30,152	467,386
FY2017	298,321	94,080	4,665	19,616	16,313		–	63,149	496,144
M J McCarney									
FY2018	240,975	58,548	4,211	20,049	5,076	–	–	20,802	349,661
FY2017	226,419	65,553	4,631	19,616	2,272		–	44,410	362,901
E A Dupont-Brown									
FY2018	219,103	47,632	–	20,049	837	–	–	12,147	299,768
FY2017	197,004	57,000	–	19,616	1,311		–	19,657	294,588

Name	Short-term benefits: Cash salary, fees and annual leave $	Short-term benefits: STI $	Short-term benefits: Non-monetary benefits $	Post-employment benefits: Super-annuation $	Long term benefits: Long service leave $	Termination benefits $	Share-based payments: Deferred STI and Other $	Share-based payments: Performance Shares and Rights $	Total $
T J Milnes									
FY2018	209,223	44,929	–	20,049	8,663	–	–	14,304	297,168
FY2017	192,633	49,139	–	19,616	4,203		–	30,752	296,343
M J Pitton									
FY2018	158,643	27,477	4,869	18,840	2,827	–	–	9,092	221,748
FY2017	165,861	31,406	2,516	17,725	3,204		–	19,782	240,494
V C ten Krooden									
FY2018	173,567	38,173	–	19,532	1,177	–	–	–	232,449
FY2017	170,464	30,600	–	18,598	1,989		–	–	221,651
Total									
FY2018	2,866,133	420,036	24,897	220,759	73,693	568,528	(157,164)	(196,234)	3,820,648
FY2017	2,639,756	693,409	20,771	202,291	39,179	–	283,913	463,017	4,342,336

1 Ms S J Brennan was appointed the Chairman of the Mortgage Choice Financial Planning Investment Committee on 13 April 2018 and receives fees in addition to her base Non-executive Director fees for this role – see section (g) for further details.

2 Mr S J Clancy is the Chairman of the Remuneration Committee and receives fees in addition to his base Non-executive Director fees for this role – see section (g) for further details.

3 Mr A C Gale has reached his maximum superannuation contribution and has requested he receives his SGC as additional salary

4 Mr S C Jermyn is the Chairman of the Audit Committee and receives fees in addition to his base Non-executive Director fees for this role – see section (g) for further details.

5 Ms D E Ralston was the Chairman of the Mortgage Choice Financial Planning Investment Committee until her retirement on 21 March 2018 and received fees in addition to her base Non-executive Director fees for this role – see section (g) for further details.

6 Share based payments (Deferred STI and other) relating to Ms S R Mitchell include 2 components:

(a) 90,000 performance rights will be granted to the CEO to focus on critical medium term strategic objectives necessary for successful transition from the prior broker remuneration model. The grant will vest in two equal tranches in April 2019 and April 2020 subject to continued service and the achievement of performance criteria to be set by the board.

(b) Deferred STI of $33,151 in relation to FY2018 being 50% of the total STI granted or to be granted as share rights with 50% due to vest in 12 months and 50% to vest in 24 months. The terms of the performance rights are described to those described in section (d).

7 Share based payments (Deferred STI and other) relating to Mr J L Flavell include two components:

(a) share rights granted at commencement to compensate him for the LTI value forfeited on his departure from his former employer to join the Company. The outstanding rights vested on 15 September 2017.

(b) Deferred STI of $261,000 in relation to FY2016 and $266,220 in relation to FY2017 being 50% of the total STI granted or to be granted as share rights with 50% due to vest in 12 months and 50% to vest in 24 months. The terms of the performance rights are described to those described in section (d). Share based payment expensed in prior years relating to these rights have been reversed in FY2018, given that unvested rights lapsed on resignation.

The following table shows the relative proportion of remuneration that each executive received during FY2018 and whether it is fixed remuneration or performance based remuneration.

Table I: Remuneration mix

	Fixed/service based remuneration				Performance Based Remuneration			
Name	Fixed remuneration %	Share-based %	Commencement shares rights[1] %	Total %	Cash STI %	Share Based %	Total %	Termination benefits %
S R Mitchell	73%	–	–	73%	21%	6%	27%	–
J L Flavell	85%	–	2%	87%	–	(83%)	(83%)	96%
N C Rose-Innes	78%	–	–	78%	16%	6%	22%	–
M J McCarney	77%	–	–	77%	17%	6%	23%	–
E A Dupont-Brown	80%	–	–	80%	16%	4%	20%	–
T J Milnes	80%	–	–	80%	15%	5%	20%	–
M J Pitton	84%	–	–	84%	12%	4%	16%	–
V C ten Krooden	84%	–	–	84%	16%	–	16%	–

1 Footnote 7(a) in Table H describes the terms of this grant.

Details of share-based remuneration

The key terms of performance shares granted as LTI awards to executive KMP that were tested during, or remain on foot at the end of, FY2018 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year:

Table J: Performance shares on foot or tested during FY2018

Grant date	Vesting date	Value per performance share at grant date[1]	% Vested
FY2015 LTI grants			
22 September 2014	14 September 2016	$2.72	100
22 September 2014	14 September 2017	$2.72	100
22 September 2014	14 September 2017	$2.72	100
22 September 2014	14 September 2017	$1.68	0
FY2016 LTI grants			
17 September 2015	14 September 2018	$2.01	
17 September 2015	14 September 2018	$1.19	
FY2017 LTI grants			
25 October 2016	14 September 2019	$2.28	
25 October 2016	14 September 2019	$1.30	

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

The key terms of performance rights granted that were tested during, or remain on foot at the end of, FY2018 are set out in the following table. The table also explains the vesting outcome of awards that were tested during the year.

Table K: Performance rights on foot or tested during FY2018

Grant date	Vesting date	Value per performance right at grant date[1]	% Vested
Commencement grant			
7 April 2015	15 September 2017	$2.60	100
FY2016 deferred STI award			
25 August 2016	14 September 2017	$2.21	100
FY2018 performance share rights			
6 October 2017	14 September 2020	$1.78	
6 October 2017	14 September 2020	$1.40	

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

Details of remuneration paid, vested, lapsed or forfeited during FY2018

The percentage of the available grant that was paid, vested or forfeited in FY2018 is set out below.

Table L: Remuneration forfeited and vested during FY2018 and outstanding at 30 June 2018

	Cash STI		LTI (Performance shares or rights)					
Name	Potential FY2018 bonus paid %	Potential FY2018 Bonus 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[1] $
S R Mitchell	87	13	2018	–	–	30/06/2021	nil	84,863
			2018	–	–	30/06/2020	nil	16,575
			2017	–	–	30/06/2020	nil	76,408
			2016	–	–	30/06/2019	nil	74,189
			2015	55	45	–	–	–
J L Flavell	–	100	2018	–	100	–	–	–
			2017	–	100	–	–	–
			2017	–	100	–	–	–
			2017	–	100	–	–	–
			2016	–	100	–	–	–
			2015	100	–	–	–	–
N C Rose-Innes	75	25	2018	–	–	30/06/2021	nil	65,944
			2017	–	–	30/06/2020	nil	73,787
			2016	–	–	30/06/2019	nil	67,411
			2015	55	45	–	–	–
M J McCarney	80	20	2018	–	–	30/06/2021	nil	50,559
			2017	–	–	30/06/2020	nil	56,575
			2016	–	–	30/06/2019	nil	45,773
			2015	55	45	–	–	–

Name	Cash STI		LTI (Performance shares or rights)					
	Potential FY2018 bonus paid %	Potential FY2018 Bonus 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[1] $
E A Dupont-Brown	76	24	2018	–	–	30/06/2021	nil	36,428
			2017	–	–	30/06/2020	nil	40,995
			2016	–	–	30/06/2019	nil	30,038
T J Milnes	70	30	2018	–	–	30/06/2021	nil	35,803
			2017	–	–	30/06/2020	nil	40,289
			2016	–	–	30/06/2019	nil	31,293
			2015	55	45	–	–	–
M J Pitton	80	20	2018	–	–	30/06/2021	nil	23,948
			2017	–	–	30/06/2020	nil	27,104
			2016	–	–	30/06/2019	nil	19,738
			2015	55	45	–	–	–
V C ten Krooden	85	15	2018	–	–	30/06/2021	nil	–

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

Legacy performance awards

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

Service agreements

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

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

(a) The employment contract of Susan Mitchell is terminable by either the Company with 12 months' notice or the executive with 6 months' notice.

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

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

Key management personnel equity holdings

(a) Performance shares

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

Table M: Movements in performance shares during FY2018

	Balance at the start of the year	Granted as compen-sation	Value granted $	Vested	Value at vesting date $	Forfeited	Balance at the end of the year
Executive KMP							
S R Mitchell	115,381	–	–	(14,481)	33,017	(11,847)	89,053
J L Flavell	452,236	–	–	–	–	(452,236)	–
N C Rose-Innes	107,280	–	–	(13,159)	30,003	(10,766)	83,355
M J McCarney	76,459	–	–	(8,935)	20,372	(7,310)	60,214
E A Dupont-Brown	41,676	–	–	–	–	–	41,676
T J Milnes	53,170	–	–	(6,107)	13,924	(4,997)	42,066
M J Pitton	34,483	–	–	(3,853)	8,785	(3,152)	27,478
V C ten Krooden	–	–	–	–	–	–	–

(b) Performance rights

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

Table N: Movements in performance rights during FY2018

	Balance at the start of the year	Granted as compen-sation	Value granted $	Vested	Value at vesting date $	Forfeited	Balance at the end of the year
Executive KMP							
S R Mitchell (*deferred STI*)	–	19,052	33,151	–	–	–	19,052
J L Flavell (*Commencement*)	56,560	–	–	(56,560)	152,024	–	–
John Flavell (*deferred STI*)	119,544	115,919	266,219	(59,772)	147,174	(175,691)	–
Share rights plan							
S R Mitchell	–	41,946	68,288	–	–	–	41,946
J L Flavell	–	224,580	365,616	–	–	(224,580)	–
N C Rose-Innes	–	40,506	65,944	–	–	–	40,506
M J McCarney	–	31,056	50,560	–	–	–	31,056
E A Dupont-Brown	–	22,376	36,428	–	–	–	22,376
T J Milnes	–	21,992	35,803	–	–	–	21,992
M J Pitton	–	14,710	23,948	–	–	–	14,710
V C ten Krooden	–	–	–	–	–	–	–

(c) Share holdings

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

Table O: Movements in KMP shareholdings during FY2018

Name	Balance at the start of the year	Received during the year on the vesting of performance rights[1]	Received during the year on the vesting of performance shares	Purchases/ sales during the year	Balance at the end of the year
Non-executive Directors					
V L Allen	–	–	–	60,000	60,000
S J Brennan	–	–	–	–	–
S J Clancy	75,000	–	–	45,000	120,000
A C Gale	–	–	–	–	–
P G Higgins	259,253	–	–	–	259,253
R G Higgins	15,380,212	–	–	–	15,380,212
S C Jermyn	2,000,000	–	–	500,000	2,500,000
D E Ralston[2]	145,000	–	–	–	N/A
P D Ritchie[2]	530,125	–	–	–	N/A
Executive KMP					
S R Mitchell	109,575	–	14,481	(11,847)	112,209
J L Flavell[2]	94,309	131,227	–	–	N/A
N C Rose-Innes	122,231	–	13,159	(72,049)	63,341
M J McCarney	17,488	–	8,935	–	26,423
E A Dupont-Brown	–	–	–	–	–
T J Milnes	117,965	–	6,107	–	124,072
M J Pitton	22,810	–	3,853	(25,105)	1,558
V C ten Krooden	–	–	–	–	–

1 Shares issued on vesting of 116,332 performance rights. Additional shares represent the value of dividends over the vesting period.

2 For these KMPs, the share holdings disclosed are for the period for which they were employed.

(i) Glossary

The following table defines terms used throughout this Remuneration Report:

Table P: Glossary of terms used

Term	Definition
Comparator group	Genworth Mortgage Insurance Australia Ltd, Eclipx Group Ltd, ClearView Wealth Australia Ltd, Credit Corp Group Ltd, AUB Group Ltd, Moelis Australia Ltd, Blue Sky Alternative Investments Ltd, Pepper Group Ltd, FlexiGroup Australia Ltd, Pinnacle Investment Management Group Ltd, EML Payments Ltd, MyState Ltd, OFX Group Ltd, HFA Holdings Ltd, Scottish Pacific Group Ltd, Pacific Current Group Ltd, HUB24 Ltd, EQT Holdings Ltd, IMF Bentham Ltd, Australian Finance Group Ltd, Centuria Capital Ltd, Pengana Capital Group, Money3 Corp Ltd, Auswide Bank Ltd, zipMoney Ltd, Freedom Insurance Group Ltd, FSA Group Ltd, Bell Financial Group Ltd, Euroz Ltd, Onevue Holdings Ltd, Pioneer Credit Ltd, Kina Securities Ltd, APN Property Group Ltd, Axsesstoday Ltd, K2 Asset Management Holdings Ltd, Yellow Brick Road Holdings Ltd, Diversa Ltd
KMP	Key management personnel, being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors. KMP includes Executives and Non-executive Directors and are detailed on pages 19 and 20.
KPI	Key Performance Indicator
LTI	Long Term Incentive
Performance right	A performance right is a right to one Mortgage Choice share, plus the number of shares that would have resulted from reinvestment of dividends paid during the vesting period on the shares acquired on vesting of the rights. In certain circumstances the Board has a discretion to pay a cash equivalent amount in lieu of an allocation of shares. Performance rights are used to deliver the CEO's deferred STI awards.
Performance share	Performance shares are shares in Mortgage Choice that are held in an employee share plan trust. From 2017, LTI awards to executive KMP are delivered using performance rights.
PSP	Prior to 2017, the Performance Share Plan was used to make LTI awards to executives.
Performance rights	Performance right is a contractual right with Mortgage Choice to receive a given number of ordinary shares under a Performance Rights Plan. LTI awards to executive KMP are delivered using performance rights.
PRP	The Performance Rights Plan is used to make LTI awards to executives.
STI	Short Term Incentive
VWAP	Volume weighted average price

Insurance of Directors and Officers

Insurance premiums were paid for the year ended 30 June 2018 in respect of Directors' and Officers' liability and legal expenses for Directors and Officers of the Company and all controlled entities. The insurance contract prohibits disclosure of the premium paid. The insurance premiums relate to:

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

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

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

Proceedings on behalf of the Company

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

Non-audit services

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor’s expertise and experience with the Company or Group are important. Details of the amounts paid or payable to the auditor (Deloitte Touche Tohmatsu) for non-audit services provided during the year are set out in Note 19.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below in Note 19, did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44.

Rounding

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

Auditor

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

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

Vicki Allen
Chairman

Sydney
20 August 2018

Auditor's Independence Declaration

for the year ended 30 June 2018

Deloitte.

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

20 August 2018

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 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountants

Consolidated Income Statement
for the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue	5		
Origination commission		**70,015**	75,859
Trailing commission excluding discount unwind		**106,840**	83,901
Trailing commission discount unwind		**17,905**	18,890
Diversified products commission		**7,265**	6,573
Help Me Choose income excluding discount unwind		**119**	(53)
Help Me Choose income discount unwind		**10**	53
Financial Planning income		**11,290**	10,225
Franchise income		**921**	1,126
Interest		**577**	474
Other income		**2,866**	2,749
		217,808	199,797
Direct costs			
Origination commission		**(48,839)**	(54,611)
Trailing commission excluding discount unwind		**(102,668)**	(52,171)
Trailing commission discount unwind – finance costs		**(11,048)**	(11,612)
Diversified products commission		**(5,513)**	(4,881)
Help Me Choose direct costs		**–**	–
Financial planning commission		**(9,063)**	(8,153)
Gross profit		**40,677**	68,369
Operating Expenses			
Sales		**(12,458)**	(13,301)
Technology		**(4,992)**	(4,994)
Marketing		**(8,675)**	(9,347)
Corporate		**(8,705)**	(8,861)
Profit before income tax		**5,847**	31,866
Income tax expense	6	**(1,609)**	(9,689)
Profit for the period from continuing operations		**4,238**	22,177
Net profit attributable to the owners of Mortgage Choice Limited		**4,238**	22,177

	Notes	Cents	Cents
Earnings per share			
From continuing operations			
Basic earnings per share	26	**3.4**	17.8
Diluted earnings per share	26	**3.4**	17.7

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2018

	2018 $'000	2017 $'000
Profit for the year	**4,238**	22,177
Other comprehensive income	**–**	–
Total comprehensive income attributable to the owners of Mortgage Choice Limited	**4,238**	22,177

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

Consolidated Balance Sheet

as at 30 June 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**3,353**	8,646
Trade and other receivables	7	**104,038**	101,089
Current tax assets		**112**	–
Total current assets		**107,503**	109,735
Non-current assets			
Receivables	7	**275,685**	251,234
Property, plant and equipment	8	**686**	658
Intangible assets	10	**8,562**	6,081
Total non-current assets		**284,933**	257,973
Total assets		**392,436**	367,708
LIABILITIES			
Current liabilities			
Trade and other payables	11	**77,211**	68,605
Current tax liabilities		**–**	1,448
Provisions	12	**1,258**	965
Total current liabilities		**78,469**	71,018
Non-current liabilities			
Trade and other payables	13	**196,711**	153,812
Deferred tax liabilities	14	**30,913**	37,899
Provisions	12	**691**	791
Total non-current liabilities		**228,315**	192,502
Total liabilities		**306,784**	263,520
Net assets		**85,652**	104,188
EQUITY			
Contributed equity	15	**7,764**	7,277
Reserves	16(a)	**1,309**	2,075
Retained profits	16(b)	**76,579**	94,836
Total equity		**85,652**	104,188

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 2018

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 30 June 2016		**6,804**	**1,664**	**93,859**	**102,327**
Total comprehensive income for the year as reported in the 2017 financial statements		–	–	22,177	22,177
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	15	473	(473)	–	–
Dividends paid	17	–	–	(21,200)	(21,200)
Employee share plans – value of employee services	27	–	884	–	884
		473	411	(21,200)	(20,316)
Balance at 30 June 2017		**7,277**	**2,075**	**94,836**	**104,188**
Total comprehensive income for the year as reported in the 2018 financial statements		–	–	4,238	4,238
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	15	487	(487)	–	–
Dividends paid	17	–	–	(22,495)	(22,495)
Employee share plans – value of employee services	27	–	(279)	–	(279)
		487	(766)	(22,495)	(22,774)
Balance at 30 June 2018		**7,764**	**1,309**	**76,579**	**85,652**

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 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**211,084**	215,418
Payments to suppliers and employees (inclusive of goods and services tax)		**(178,702)**	(182,399)
		32,382	33,019
Income taxes paid		**(10,155)**	(9,162)
Net cash inflow from operating activities	25	**22,227**	23,857
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		**(4,137)**	(1,395)
Loan to franchisees		**(1,502)**	(1,159)
Proceeds from sale of property, plant and equipment		**37**	1
Interest received		**577**	474
Net cash (outflow) from investing activities		**(5,025)**	(2,079)
Cash flows from financing activities			
Dividends paid to Company's shareholders		**(22,495)**	(21,200)
Net cash (outflow) from financing activities		**(22,495)**	(21,200)
Net increase/(decrease) in cash and cash equivalents		**(5,293)**	578
Cash and cash equivalents at the beginning of the financial year		**8,646**	8,068
Cash and cash equivalents at the end of year		**3,353**	8,646

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

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

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins on or after 1 July 2017.

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

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016

The application of these Standards and amendments does not have any material impact on the disclosures in the Group's consolidated financial statements.

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.

Prior year comparisons may be reclassified to enhance year on year comparison.

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.

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

(ii) Employee Share Trust

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

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

C. Segment reporting

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

D. Revenue recognition

Revenue is measured 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.

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 and included in origination commission revenue.

(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 continues to receive trailing commission for health insurance policies sold through its comparison website, now closed. The recognition of this revenue is consistent with mortgage trailing commissions arising from mortgage broking activities detailed in (ii) above.

(v) Financial planning 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.

(vi) Interest income

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

(vii) Other income

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

E. Income tax

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

Note 1: Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

Investment allowances

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

Tax consolidation legislation

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

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

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

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

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

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

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

F. Leases

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.

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. Impairment of assets

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

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

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

H. Cash and cash equivalents

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

I. Trade receivables

Trade receivables are recognised 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.

J. Trailing commissions receivable

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

K. 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. Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition

Note 1: Summary of significant accounting policies (continued)

of the financial asset, the estimated future cash flows of the investment have been affected.

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 7).

L. Property, plant and equipment

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

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

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

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

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

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

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

M. Intangible assets

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives.

N. 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.

O. Trailing commissions payable

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

P. Borrowing costs

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

Q. 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.

R. Employee benefits

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

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

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

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

Share-based payments
Share based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan, the Mortgage Choice Performance Share Plan and the Mortgage Choice Share Rights Plan. Information relating to these schemes is set out in Note 27.

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

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

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

S. 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

Note 1: Summary of significant accounting policies (continued)

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.

T. 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.

U. 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.

V. Rounding of amounts

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

W. New accounting standards and interpretations

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016-5 'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'	1 January 2018	30 June 2019
AASB 2008-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	30 June 2020

From the above table, the potential effect of the revised Standards/Interpretations on the Group's financial statements is discussed for the most impactful Standards below:

AASB 15 Revenue from Contracts with Customers
Under AASB 15 revenue is recognised when the performance obligations have been satisfied and when the goods and/or services underlying the particular performance obligation is transferred to the customer. The Group's major source of income is origination and trailing commission on residential mortgages. Until 30 June 2018, the origination and trailing commission receivables have been measured and recognised under AASB 139, however, from 1 July 2018 the present value of the trailing commission receivables will be recognised under AASB 15 as a contract asset. Under AASB15, this will be measured using the expected value method. The impact of this change in revenue recognition is not expected to have a material impact on the Group's financial statements.

The Group's recognition of other sources of income are not expected to change materially under AASB 15, with the exception of trailing income on life insurance products referred by Mortgage Choice brokers to a third party provider. This is currently recognised when the commission is received or receivable. Under AASB 15, the future trailing commission will be estimated and recognised when the policy is written as no service is required beyond the referral. The impact of this change in revenue recognition is not expected to have a material impact on the Group's financial statements.

AASB 9 Financial Instruments
AASB 9 and the relevant amending standards introduced new requirements for the classification and measurement of financial assets, impairment of financial assets and hedge accounting.

Key requirements considered most relevant to Group are:

- All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Generally, debt investments that are held under a business model to collect the contractual cash flows, which consist solely of payments of principal and interest are measured at amortised cost at the end of subsequent accounting periods. Most other debt and equity investments are measured at their fair value at the end of subsequent accounting periods; and
- A new model in relation to the credit impairment of financial assets, being an expected credit loss model, as opposed to an incurred credit loss model under AASB 139.

Based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2018, on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed of the impact of AASB 9 to the Group's consolidated financial statements as follows:

Classification and measurement
- As noted above, future trail commission receivable will be accounted for under AASB 15 as a contract asset;
- Trail commission payables will not be affected and will remain a financial liability measured at amortised cost.

Credit loss impairment
- Due to the nature of the mortgage broking industry, the Group is not exposed to the credit risk of the underlying loan books on which it derives its commissions. As such, the adoption of an expected credit loss model is not expected to have a material impact on the Group's financial results.

The Group does not perform hedge accounting and as such will not be impacted by the change in hedge accounting requirements.

AASB 16 Leases
AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

AASB 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. AASB 16 eliminates the distinction between operating leases (off balance sheet) and finance leases (on balance sheet) for lessee

Note 1: Summary of significant accounting policies (continued)

accounting and replaces it with a lease model where a right-of-use asset and a corresponding lease liability will be recognised for all leases (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

As at 30 June 2018, the Group currently has various non-cancellable operating lease commitments in place. A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of AASB 16.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing the extent of the potential impact. As such, it is not currently practicable to provide an estimate of the financial effect until the directors complete the review.

X. Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

Note 2: Financial risk management

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

	2018 $'000	2017 $'000
Financial Assets		
Current		
Cash and cash equivalents	**3,353**	8,646
Trade and other receivables*	**103,460**	100,620
Non-current		
Receivables	**275,685**	251,234
	382,498	360,500

* Excludes prepayments

	2018 $'000	2017 $'000
Financial Liabilities		
Current		
Trade and other payables	**77,211**	68,605
Non-current		
Trade and other payables	**196,711**	153,812
	273,922	222,417

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 2018 the weighted average interest rate on its cash balances was 1.5% (2017 1.5%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by $83,000 (2017 $83,000). A decrease of 100 basis points would reduce the Group's after tax result by $83,000 (2017 $83,000).

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 franchisees trailing commissions that have not been received. The risk profile of the Group's lender panel is set out in the table below.

2018	Standard & Poor's Credit Rating	Cash $'000	Trade and franchisee receivables $'000	NPV Future trailing commissions receivable $'000
ADIs	AA-	3,353	8,654	243,407
	A+	–	1,172	21,458
	A	–	1,678	46,171
	A-	–	–	–
	BBB+	–	236	2,839
	BBB	–	1,723	31,432
	BBB-	–	–	–
	Not rated	–	156	5,347
		3,353	**13,619**	**350,654**
Non ADIs	AA-	–	60	–
	A+	–	307	–
	A	–	–	–
	A-	–	–	–
	BBB+	–	1	–
	BBB	–	–	–
	BBB-	–	128	2,666
	Not rated	–	8,218	7,593
		–	**8,714**	**10,259**
Total Receivable		**3,353**	**22,333**	**360,913**

2017	Standard & Poor's Credit Rating	Cash and cash equivalents $'000	Trade and franchisee receivables $'000	NPV Future trailing commissions receivable $'000
ADIs	AA-	8,646	9,708	234,128
	A+	–	1,154	16,767
	A	–	1,375	15,677
	A-	–	943	25,943
	BBB+	–	110	2,599
	BBB	–	1,204	27,613
	BBB-	–	–	–
	Not rated	–	240	5,502
		8,646	**14,734**	**328,229**
Non ADIs	AA-	–	51	–
	A+	–	358	–
	A	–	–	–
	A-	–	–	–
	BBB+	–	–	–
	BBB	–	–	–
	BBB-	–	137	2,324
	Not rated	–	5,674	4,301
		–	**6,220**	**6,625**
Total Receivable		**8,646**	**20,954**	**334,854**

(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.

Note 2: Financial risk management (continued)

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 2018	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	3,351	–	–	–	–	3,351	3,351
Franchisee receivables	1,190	1,119	1,970	3,238	419	7,936	6,238
Non-interest bearing							
Cash and cash equivalents	2	–	–	–	–	2	2
Trade receivables	11,751	–	–	–	–	11,751	11,751
Franchisee and other receivables	308	25	10	11	–	354	354
Future trailing commissions receivable[1]	48,078	43,938	76,009	148,241	114,368	430,635	360,913
	64,680	**45,082**	**77,989**	**151,490**	**114,787**	**454,028**	**382,609**

The fair value of the future trailing commissions receivable is $370,131,000. The fair value of all other assets is the same as their carrying amount. The fair value of the future trailing commissions receivable would be classified as Level 3 in the fair value heirarchy. It has been determined in accordance with generally accepted pricing models using a discounted cash flow valuation technique, which requires the use of management assumptions as disclosed in Note 3 with the exception of the discount rate for which management has applied a discount rate of 4.34%. There has been no change to the valuation technique during the year.

At 30 June 2017	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	8,644	–	–	–	–	8,644	8,644
Franchisee receivables	680	813	1,568	2,042	134	5,237	4,588
Non-interest bearing							
Cash and cash equivalents	2	–	–	–	–	2	2
Trade receivables	11,907	–	–	–	–	11,907	11,907
Franchisee and other receivables	406	34	58	7		505	505
Future trailing commissions receivable	47,294	42,820	73,331	139,026	100,429	402,900	334,854
	68,933	**43,677**	**74,957**	**141,075**	**100,563**	**429,195**	**360,500**

The fair value of the future trailing commissions receivable is $349,564,000. The fair value of all other assets is the same as their carrying amount.

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

Contractual maturities of financial liabilities at 30 June 2018	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	13,401	–	–	–	–	13,401	13,401
Licence fees and other payables	–	–	–	–	–	–	–
Future trailing commissions payable	33,625	31,609	54,747	107,111	83,202	310,194	260,521
	47,026	**31,609**	**54,747**	**107,111**	**83,202**	**323,595**	**273,922**

The Group's most significant financial liability is related to the net present value of future trailing commissions payable. Due to the structure of the Group's commission arrangements, the total future trailing commissions payable is limited only to the total trailing commissions that are actually received and as a result, naturally limits the liquidity risk of the Group. The fair value of the future trailing commissions payable is $216,831,000. The fair value of all other liabilities is the same as their carrying amount.

The fair value of the future trailing commissions payable is $266,301,000. The fair value of all other liabilities is the same as their carrying amount.

Contractual maturities of financial liabilities at 30 June 2017	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	11,286	–	–	–	–	11,286	11,286
Licence fees and other payables	3,545	–	–	–	–	3,545	3,545
Future trailing commissions payable	29,258	26,537	45,540	86,286	62,313	249,934	207,587
	44,089	**26,537**	**45,540**	**86,286**	**62,313**	**264,765**	**222,418**

(d) Prepayment risk

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

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 subject to the loan continuing to perform. The Group also makes trailing commission payments to franchisees based on their individual loan book balance outstanding.

Note 3: Critical accounting estimates and judgements (continued)

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

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

The significant assumptions used in the valuation are listed below:

	2018	2017
Weighted average loan life	**4.0 years**	3.7 years
Average discount rate	**5.4%**	5.7%
Percentage paid to franchisees	**72%**	62%

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

- a decrease in net assets of $4.7 million (made up of decreases in current assets of $1.0 million, non-current assets of $23.8 million, current liabilities of $0.7 million, non-current liabilities of $17.4 million and deferred tax liabilities of $2.0 million) if run-off rates increase by 10%; or
- an increase in net assets of $5.3 million (made up of increases in current assets of $1.0 million, non-current assets of $27.0 million, current liabilities of $0.7 million, non-current liabilities of $19.7 million and deferred tax liabilities of $2.3 million) if run-off rates decrease by 10%.

Changes to the discount rate are likely to occur as a result of changes to the interest rate. However, management does not consider this to have a material impact on the value of trailing commissions receivable and payable as they are calculated using amortised cost rather than fair value. During FY2018 the Group revised the broker remuneration framework resulting in an increase to the percentage paid to franchisees. Management does not consider further material changes to the percentage paid to franchisees to be likely.

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 $8.7 million positive adjustment after tax to the Group's profit and loss for FY2018 (2017 – $1.2 million positive adjustment). Changes to the model assumptions to reflect the new broker remuneration framework resulted in a $28.5 million negative adjustment after tax to the Group's profit and loss for FY2018, refer Note 4 (c) (ii).

Note 4: Segment information

(a) Description of segments

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

The Chief Executive Officer considers the business from both a product and cash versus IFRS presentation of the results. Therefore management has identified three reportable product segments, Mortgage Choice franchised mortgage broking (MOC), Mortgage Choice Financial Planning (MCFP) and Help Me Choose health fund and mortgage comparison website (HMC). MCFP includes revenue from wealth products, including investment advice as well as all risk insurance products written across the Group. Operating expenses presented in MCFP represent the expenses solely attributable to that business segment. HMC ceased operations in 2015 but will continue to receive trailing commissions until August 2018. 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 2018 is as follows:

Product Segments

2018	Total $'000	MOC $'000	MCFP $'000	HMC $'000
Revenue	217,808	206,357	11,322	129
Gross Profit (IFRS)	40,677	38,289	2,259	129
Gross profit (cash)	68,422	65,807	2,259	356
Depreciation and amortisation	1,587	1,587	–	–
OPEX (excl SBR[1])	35,110	33,389	1,721	–
Income tax expense	1,609	1,415	155	39
NPAT (IFRS)	4,238	3,786	362	90
NPAT (cash)	23,382	22,750	383	249

1 Share-based remuneration

2017	Total $'000	MOC $'000	MCFP $'000	HMC $'000
Revenue	199,797	189,452	10,345	–
Gross Profit (IFRS)	68,369	66,177	2,192	–
Gross profit (cash)	67,756	64,753	2,192	811
Depreciation and amortisation	1,581	1,513	68	–
OPEX (excl SBR[1])	35,619	33,665	1,954	–
Income tax expense	9,689	9,629	60	–
NPAT (IFRS)	22,177	22,036	141	–
NPAT (cash)	22,634	21,889	177	568

1 Share-based remuneration

Note 4: Segment information (continued)

Cash versus IFRS

	2018	2017	% change	2018	2017	% change
		Cash[1]			IFRS	
	$'000	$'000		$'000	$'000	
Origination commission income[2]	70,015	75,859	(8%)	70,015	75,859	(8%)
Trailing commission income[2]	98,459	96,689	2%	124,745	102,791	21%
	168,474	172,548	(2%)	194,760	178,650	9%
Origination commission paid	48,839	54,611	(11%)	48,839	54,611	(11%)
Trailing commission paid[3]	59,911	59,103	1%	73,048	63,783	15%
	108,750	113,714	(4%)	121,887	118,394	3%
Net core commissions	**59,724**	**58,834**	**2%**	**72,873**	**60,256**	**21%**
Diversified products net revenue	1,752	1,692	4%	1,752	1,692	4%
Financial Planning net revenue	2,227	2,072	7%	2,227	2,072	7%
HMC net revenue	356	811	(56%)	129	–	100%
Other income[2]	4,364	4,349	0%	4,364	4,349	0%
Gross Profit	**68,423**	**67,758**	**1%**	**81,345**	**68,369**	**19%**
Operating Expenses	35,110	35,619	(1%)	35,110	35,619	(1%)
Share-based remuneration	–	–		(279)	884	(132%)
Net Profit Before Tax	33,313	32,139	4%	46,514	31,866	46%
Balance sheet adjustment – NPV Future trail payable[4]				(40,668)		
Net Profit After Tax	**23,382**	**22,634**	**3%**	**4,238**	**22,177**	**(81%)**

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

2 Commissions received in 2017 representing the margin earned on white label products have been reclassified from other income to origination commission ($777k) and trailing commission ($300k).

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

4 The NPV of future trail payable was adjusted at 30 June 2018 to reflect the change in the broker remuneration structure.

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

	2018	2017	% change	2018	2017	% change
		Cash			IFRS	
	$'000	$'000		$'000	$'000	
Diversified products commissions	7,265	6,573	11%	7,265	6,573	11%
Diversified products commissions paid	5,513	4,881	13%	5,513	4,881	13%
Diversified products net revenue	**1,752**	**1,692**	**4%**	**1,752**	**1,692**	**4%**
Financial Planning revenue	11,290	10,225	10%	11,290	10,225	10%
Financial Planning commissions paid	9,063	8,153	11%	9,063	8,153	11%
Financial Planning net revenue	**2,227**	**2,072**	**7%**	**2,227**	**2,072**	**7%**
Help Me Choose commissions[1]	356	811	(56%)	129	–	100%
Help Me Choose direct costs	–	–	0%	–	–	0%
Help Me Choose net revenue	**356**	**811**	**(56%)**	**129**	**–**	**100%**
Franchise income	921	1,126	(18%)	921	1,126	(18%)
Interest	577	474	22%	577	474	22%
Other Income[2]	2,866	2,749	4%	2,866	2,749	4%
Other income	**4,364**	**4,349**	**0%**	**4,364**	**4,349**	**0%**

1 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.

2 Commissions received in 2017 representing the margin earned on white label products have been reclassified from other income to origination commission ($777k) and trailing commission ($300k).

(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.

Note 4: Segment information (continued)

(ii) Net Profit After Tax

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

	2018 $'000	2017 $'000
Cash Net profit after tax	**23,382**	22,634
NPV future trails on new loans originated, net of payout	**20,996**	20,336
Less net cash from trail previously recognised under IFRS	**(20,445)**	(20,536)
Plus adjustments to loan book assumptions	**8,680**	1,151
Gain/(loss) on prepayment/(establishment) of trail liability	**(183)**	(75)
Plus reversal of amortisation of trail liability[1]	**156**	119
NPV future trails on Help Me Choose policies	**20**	–
Less net cash from trail previously recognised under IFRS	**(179)**	(568)
Less share based payments expense	**279**	(884)
IFRS before adjustment to NPV Trail Payable	**32,706**	22,177
Less Balance Sheet adjustment to NPV Trail payable	**(28,468)**	–
IFRS	**4,238**	22,177

1 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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash	**68,423**	67,758	**59,724**	58,834
NPV future trails on new loans originated, net of payout	**29,995**	29,051	**29,995**	29,051
Less net cash from trail previously recognised under IFRS	**(29,206)**	(29,335)	**(29,206)**	(29,335)
Plus adjustments to loan book assumptions	**12,400**	1,644	**12,400**	1,644
Gain/(loss) on prepayment/(establishment) of trail liability	**(261)**	(108)	**(261)**	(108)
Plus reversal of amortisation of trail liability[1]	**221**	170	**221**	170
NPV future trails on Help Me Choose policies written	**29**	–	**–**	–
Less net cash from trail previously recognised under IFRS	**(256)**	(811)	**–**	–
IFRS before adjustment to NPV Trail Payable	**81,345**	68,369	**72,873**	60,256
Less Balance Sheet adjustment to NPV Trail payable	**(40,668)**	–	**(40,668)**	–
IFRS	**40,677**	68,369	**32,205**	60,256

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

Note 5: Revenue

	2018 $'000	2017 $'000
Revenue from continuing operations		
Sales revenue		
Services	**196,450**	177,631
Other revenue		
Interest earned on deposits and loans	**577**	474
Interest in relation to discount unwind	**17,915**	18,943
Sponsorship and other income	**2,866**	2,749
	217,808	199,797

Note 6: Income tax

(a) Income tax expense

	2018 $'000	2017 $'000
Current tax	**8,601**	9,472
Deferred tax	**(6,986)**	238
Under (over) provided in prior years	**(6)**	(21)
	1,609	9,689
Income tax expense is attributable to:		
Profit from continuing operations	**1,609**	9,689
	1,609	9,689
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 9)	**(15,678)**	(1,344)
Increase/(decrease) in deferred tax liabilities (note 14)	**8,692**	1,582
	(6,986)	238

Note 6: Income tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 $'000	2017 $'000
Profit from continuing operations before income tax expense	**5,847**	31,866
Income tax calculated @ 30% (2017 – 30%)	**1,754**	9,560
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income	**166**	231
Research and Development Tax Incentive	**(305)**	(81)
	1,615	9,710
Under/(over) provision from prior years	**(6)**	(21)
Income tax expense	**1,609**	9,689

No part of the deferred tax asset shown above and in note 9 is attributable to tax losses.

Note 7: Trade and other receivables

	2018			2017		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Trade receivables[1]	**11,751**	**–**	**11,751**	11,907	–	11,907
Net present value of future trailing commissions receivable	**89,640**	**271,273**	**360,913**	86,955	247,898	334,853
Franchisee receivables	**1,972**	**4,412**	**6,384**	1,505	3,332	4,837
Other receivables	**97**	**–**	**97**	252	4	256
Prepayments	**578**	**–**	**578**	470	–	470
	104,038	**275,685**	**379,723**	**101,089**	**251,234**	**352,323**

(1) Subject to a limited charge in favour of The Loan Book Security Trust (refer to note 11)

(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 2018 current trade receivables were not impaired (2017 – nil).

(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. The fair values of the net present value of future trailing commission receivable are presented in Note 2.

Note 8: Non-current assets – Property, plant and equipment

	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Year ended 30 June 2017			
Opening net book amount	340	110	450
Additions	272	185	457
Disposals	–	–	–
Depreciation charge	(193)	(56)	(249)
Closing net book amount	419	239	658
At 30 June 2017			
Cost	1,901	1,241	3,142
Accumulated depreciation	(1,482)	(1,002)	(2,484)
Net book amount	419	239	658
Year ended 30 June 2018			
Opening net book amount	419	239	658
Additions	164	204	368
Disposals	(41)	–	(41)
Depreciation charge	(196)	(103)	(299)
Closing net book amount	346	340	686
At 30 June 2018			
Cost	1,977	1,444	3,421
Accumulated depreciation	(1,631)	(1,104)	(2,735)
Net book amount	346	340	686

Note 9: Non-current assets – Deferred tax assets

	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	**78,156**	62,276
Employee benefits	**750**	843
Depreciation and amortisation	**74**	142
Accrued expenses	**643**	684
Total deferred tax assets	**79,623**	63,945
Set off of deferred tax assets pursuant to set off provisions (note 14)	**(79,623)**	(63,945)
Net deferred tax assets	**–**	–
Deferred tax assets to be recovered within 12 months	**20,454**	17,578
Deferred tax assets to be recovered after more than 12 months	**59,169**	46,367
	79,623	63,945

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 2016	**60,883**	**898**	**203**	**617**	**–**	**62,601**
Charged/(credited) to the income statement	1,393	(55)	(61)	67	–	1,344
At 30 June 2017	**62,276**	**843**	**142**	**684**	**–**	**63,945**
Charged/(credited) to the income statement	15,880	(93)	(68)	(41)	–	15,678
At 30 June 2018	**78,156**	**750**	**74**	**643**	**–**	**79,623**

Note 10: Non-current assets – Intangible assets

	Computer Software $'000
Year ended 30 June 2017	
Opening net book amount	6,475
Additions	937
Amortisation charge	(1,331)
Disposals	–
Closing net book amount	6,081
At 30 June 2017	
Cost	16,090
Accumulated amortisation	(10,009)
Net book amount	6,081
Year ended 30 June 2018	
Opening net book amount	6,081
Additions	3,769
Amortisation charge	(1,288)
Disposals	–
Closing net book amount	8,562
At 30 June 2018	
Cost	19,859
Accumulated depreciation	(11,297)
Net book amount	8,562

Note 11: Current liabilities – Trade and other payables

	2018 $'000	2017 $'000
Trade payables[(a)]	**10,052**	11,286
Net present value of future trailing commissions payable	**63,810**	53,775
Licence fees repayable	**–**	91
Other payables	**3,349**	3,453
	77,211	68,605

(a) Loan Book Security Trust

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

Note 11: Current liabilities – Trade and other payables (continued)

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 2018, 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 $4,691,001 (2017 – $4,962,579). This is included as part of the balance of trade payables at 30 June 2018 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. The fair values of the net present value of future trailing commission payable are presented in Note 2.

Note 12: Provisions

	2018			2017		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Make good provision[a]	**68**	**420**	**488**	40	448	488
Employee entitlements – annual leave	**731**	**–**	**731**	647	–	647
Employee entitlements – long service leave	**459**	**271**	**730**	278	343	621
	1,258	**691**	**1,949**	**965**	**791**	**1,756**

(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 13: Non-current liabilities – Trade and other payables

	2018 $'000	2017 $'000
Net present value of future trailing commissions payable	**196,711**	153,812
Licence fees repayable	**–**	–
	196,711	153,812

Note 14: Non-current liabilities – Deferred tax liabilities

	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
NPV of future trailing commissions receivable	**108,274**	100,456
Intangibles	**2,131**	1,346
Prepayments and other receivables	**131**	42
	110,536	101,844
Set-off of deferred tax assets pursuant to set off provisions (note 9)	**(79,623)**	(63,945)
Net deferred tax assets	**30,913**	37,899
Deferred tax assets to be recovered within 12 months	**27,437**	26,396
Deferred tax assets to be recovered after more than 12 months	**83,099**	75,448
	110,536	101,844

Movements – Consolidated

	NPV of future trailing commissions payable $'000	Intangibles $'000	Prepayments and other receivables $'000	Total $'000
At 30 June 2016	**98,869**	**1,355**	**38**	**100,262**
Charged to the income statement	1,587	(9)	4	1,582
At 30 June 2017	**100,456**	**1,346**	**42**	**101,844**
Charged to the income statement	7,818	785	89	8,692
At 30 June 2018	**108,274**	**2,131**	**131**	**110,536**

Note 15: Contributed equity

	2018 shares '000	2017 shares '000	2018 $'000	2017 $'000
(a) Share capital				
Ordinary shares – fully paid	**123,964**	123,756	**7,764**	7,277

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.

Note 15: Contributed equity (continued)

Total contributed equity as at 30 June 2018:

Details	Number of shares
Total ordinary shares on issue	124,997,440
Treasury shares[a]	(1,033,825)
Total ordinary shares held as contributed equity	123,963,615

(a) Treasury shares

Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) (see Note 27 for further information).

Date	Details	Number of shares
30 June 2016	Balance	887,336
14 September 2016	Shares issued under the Performance Share Plan to employees	(119,995)
15 September 2016	Shares issued under the Share Rights Plan to employees	(64,339)
1 December 2016	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	499,871
30 June 2017	Balance	1,202,873
14 September 2017	Shares issued under the Share Rights Plan to employees	(64,550)
14 September 2017	Shares issued under the Performance Share Plan to employees	(76,527)
15 September 2017	Shares issued under the Share Rights Plan to employees	(66,677)
17 September 2017	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	38,706
30 June 2018	Balance	1,033,825

Movements in ordinary share capital:

Date	Details	Number of shares $'000	$'000
30 June 2016	Balance	123,571,527	6,804
14 September 2016	Shares issued under the Performance Share Plan to employees	119,995	326
15 September 2016	Shares issued under the Share Rights Plan to employees	64,339	147
1 December 2016	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	499,871	–
1 December 2016	Held as treasury shares	(499,871)	–
30 June 2017	Balance	123,755,861	7,277
14 September 2017	Shares issued under the Share Rights Plan to employees	64,550	132
14 September 2017	Shares issued under the Performance Share Plan to employees	76,527	208
15 September 2017	Shares issued under the Share Rights Plan to employees	66,677	147
17 September 2017	Treasury shares issued to the Mortgage Choice Employee Incentive Trust	38,706	–
17 September 2017	Held as treasury shares	(38,706)	–
30 June 2018	Balance	123,963,615	7,764

Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 27.

Note 16: Reserves and retained profits

(a) Reserves

	2018 $'000	2017 $'000
Share-based payments reserve	**1,309**	2,075
Movements:		
Share-based payments reserve		
Balance 1 July	**2,075**	1,664
Performance shares expensed/(reversed)	**(279)**	884
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	**(487)**	(473)
Balance 30 June	**1,309**	2,075

Nature and purpose of reserves

Share-based payments reserve

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

Note 16: Reserves and retained profits (continued)

(b) Retained profits

	2018 $'000	2017 $'000
Balance 1 July	**94,836**	93,859
Net profit for the year	**4,238**	22,177
Dividends	**(22,495)**	(21,200)
Balance 30 June	**76,579**	94,836

Note 17: Dividends

	2018 $'000	2017 $'000
(a) Ordinary shares		
Final dividend declared out of profits of the Company for the year ended 30 June 2016 of 8.5 cents per fully paid share paid on 16 September 2016:		
Fully franked based on tax paid @ 30%		
8.5 cents per share	**–**	10,579
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2016 of 8.5 cents per fully paid share paid 23 March 2017:		
Fully franked based on tax paid @ 30%		
8.5 cents per share	**–**	10,621
Final dividend declared out of profits of the Company for the year ended 30 June 2017 of 9.0 cents per fully paid share paid on 21 September 2017:		
Fully franked based on tax paid @ 30%		
9.0 cents per share	**11,246**	–
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2017 of 9.0 cents per fully paid share paid 22 March 2018:		
Fully franked based on tax paid @ 30%		
9.0 cents per share	**11,249**	–
	22,495	21,200
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the Directors have declared a final dividend of 9 cents per fully paid ordinary share, (2017 – 9.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 10 October 2018 out of retained profits at 30 June 2018, but not recognised as a liability at year end, is	**11,250**	11,246

(c) Franked dividend

The franked portions of the final dividends after 30 June 2018 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 2018.

	2018 $'000	2017 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2017 – 30%)	**2,078**	3,206

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 $4,821,000 (2017: $4,820,000).

Note 18: Key management personnel disclosures

	2018 $'000	2017 $'000
Short-term employee benefits	**2,628,373**	2,845,813
Post-employment benefits	**158,666**	154,019
Long term benefits	**73,693**	39,179
Termination benefits	**568,528**	–
Share-based payments	**(353,398)**	746,930
Balance 30 June	**3,075,862**	3,785,941

Detailed remuneration disclosures are provided in the directors' report on pages 19-42 of the remuneration report.

Note 19: Remuneration of auditors

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

2018	**$**
(a) Audit services	
Deloitte Touche Tohmatsu Australian firm:	
Audit and review of financial reports	**213,230**
Total remuneration for audit services	**213,230**
(b) Non-audit services	
Non audit-related services	
Deloitte Touche Tohmatsu Australan firm:	
Actuarial services	**75,000**
Taxation services	**18,344**
Financial modelling services	**137,400**
Total remuneration for non-audit services	**230,744**

Note 19: Remuneration of auditors (continued)

2017	$
(a) Audit services	
Deloitte Touche Tohmatsu Australian firm:	
Audit and review of financial reports	**201,490**
Total remuneration for audit services	**201,490**
(b) Non-audit services	
Non audit-related services	
Deloitte Touche Tohmatsu Australan firm:	
Actuarial services	**75,000**
Taxation services	**17,723**
Financial modelling services	**276,350**
Total remuneration for non-audit services	**369,073**

Note 20: Contingencies

Contingent liabilities

The Group had contingent liabilities at 30 June 2018 in respect of:

Guarantees

Guarantees given in respect of premises leases $853,111 (2017: $723,150).

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 2018 and 30 June 2017, 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 21: Commitments

Lease commitments

Non-cancellable operating leases

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

	2018 $'000	2017 $'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	**1,212**	1,197
Later than one year but not later than five years	**4,841**	1,289
Later than five years	**–**	–
	6,053	2,486

Note 22: Related party transactions

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 18. Additional disclosures are set out in the Directors' report in the remuneration report.

(d) Loans to/from related parties

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

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

Note 23: 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* 2018 %	Equity holding* 2017 %
MC Loan Book Security Pty Limited	Australia	Ordinary	**100**	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 24: Events occurring after the balance sheet date

Dividend payment

Subsequent to year end, a final ordinary dividend of $11,250,000 (9 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2018 on 20 August 2018 to be paid on 10 October 2018.

Note 25: Reconciliation of profit after income tax to net cash inflow from operating activities

	2018 $'000	2017 $'000
Profit for the year	**4,238**	22,177
Depreciation and amortisation	**1,587**	1,581
Change in net present value of future trailing inflows	**(26,060)**	(5,291)
Change in net present value of future trailing outflows	**52,934**	4,741
Employee expense benefits – share-based payments	**(279)**	884
Interest received	**(577)**	(474)
Reversal of make good provision	**–**	–
Net loss (gain) on sales of non-current assest	**4**	(1)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**270**	(1,377)
(Increase)/decrease in other operating assets	**(109)**	2,202
Increase/(decrease) in trade payables	**(1,234)**	(1,003)
Increase/(decrease) in other operating liabilities	**(195)**	(1,276)
Increase/(decrease) in provision for income taxes payable	**(1,559)**	289
Increase/(decrease) in deferred tax liabilities	**(6,986)**	238
Increase/(decrease) in other provisions	**193**	8
Net cash inflow from operating activities	**22,227**	22,698

Note 26: Earnings per share

	Consolidated	
	2018 Cents	2017 Cents
(a) Basic earnings per share		
From continuing operations	**3.4**	17.8
(b) Diluted earnings per share		
From continuing operations	**3.4**	17.7

	Consolidated	
	2018 $'000	2017 $'000
Earnings used in calculating earnings per share		
Profit from continuing operations	**4,238**	22,177

Note 26: Earnings per share (continued)

	2018 Number	2017 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**124,988,956**	124,749,199
Adjustments for calculation of diluted earnings per share:		
Share rights	**213,989**	367,192
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**125,202,945**	125,116,391

Information concerning the classification of securities

(a) Performance Share Plan

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

(b) Share Rights Plan

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

Note 27: Share-based payments

(a) Performance Share Plan (PSP)

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

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

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

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

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

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

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

(b) 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.

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

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

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

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

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

The fair value of market based conditions at grant date are independently determined using a Monte Carlo simulation model utilising a lattice-based trinomial valuation method that takes into account the term of the performance shares, the vesting criteria, the exercise price (zero), the expected price volatility of the

Note 27: Share-based payments (continued)

underlying share, the expected dividend yield and the risk free interest rate for the term of the rights.

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

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

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
2018								
22 September 2014	14 September 2017	$2.72	76,527	–	(76,527)	–	–	–
22 September 2014	14 September 2017	$1.68	62,610	–	–	–	(62,610)	–
17 September 2015	14 September 2018	$2.01	255,254	–	–	–	(117,731)	137,523
17 September 2015	14 September 2018	$1.19	255,254	–	–	–	(117,731)	137,523
25 October 2016	14 September 2019	$2.28	254,431	–	–	–	(108,387)	146,044
25 October 2016	14 September 2019	$1.30	254,431	–	–	–	(108,387)	146,044
Total			**1,158,507**	**–**	**(76,527)**	**–**	**(514,846)**	**567,134**
Weighted average price			$1.76	–	$2.72	–	$1.69	$1.70

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
2017								
23 September 2013	14 September 2016	$2.77	98,396	–	(98,396)	–	–	–
23 September 2013	14 September 2016	$1.68	80,510	–	–	–	(80,510)	–
22 September 2014	14 September 2016	$2.72	15,379	–	(15,379)	–	–	–
22 September 2014	14 September 2017	$2.72	84,580	–	(1,819)	–	(6,234)	76,527
22 September 2014	14 September 2017	$1.68	69,197	–	(1,489)	–	(5,098)	62,610
17 September 2015	14 September 2018	$2.01	269,736	–	(1,456)	–	(13,026)	255,254
17 September 2015	14 September 2018	$1.19	269,736	–	(1,456)	–	(13,026)	255,254
25 October 2016	14 September 2019	$2.28	–	261,760	–	–	(7,329)	254,431
25 October 2016	14 September 2019	$1.30	–	261,760	–	–	(7,329)	254,431
Total			**887,534**	**523,520**	**(119,995)**	**–**	**(132,552)**	**1,158,507**
Weighted average price			$1.87	$1.79	$2.72	–	$1.73	$1.76

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 0.72 years (2017 – 1.53 years).

The model inputs for performance shares granted on 25 October 2016 included:

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

(b) grant date: 25 October 2016;

(c) share price at grant date: $2.28;

(d) expected price volatility of the Company's shares: 29.04%;

(e) expected dividend yield: 0%; and

(f) risk-free interest rate: 1.686%.

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

Offer Date	Vesting date	Value	Balance at start of the year Number	Granted during the year Number	Vested during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number
2018								
7 April 2015	15 September 2017	$2.21	56,560	–	(56,560)	–	–	–
25 August 2016	14 September 2017	$2.21	59,772	–	(59,772)	–	–	–
25 August 2016	14 September 2018	$2.21	59,772	–	–	–	(59,772)	–
6 October 2017	14 September 2020	$1.78	–	305,816	–	–	(134,748)	171,068
6 October 2017	14 September 2020	$1.40	–	203,876	–	–	(89,832)	114,044
Total			**176,104**	**509,692**	**(116,332)**	**–**	**(284,352)**	**285,112**
Weighted average price			$2.33	$1.63	$2.40	–	$1.75	$1.63

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
2017								
7 April 2015	15 September 2016	$2.60	56,559	–	(56,559)	–	–	–
7 April 2015	15 September 2017	$2.60	56,560	–	–	–	–	56,560
25 August 2016	14 September 2017	$2.21	–	59,772	–	–	–	59,772
25 August 2016	14 September 2018	$2.21	–	59,772	–	–	–	59,772
Total			**113,119**	**119,544**	**(56,559)**	**–**	**–**	**176,104**
Weighted average price			$2.60	$2.21	$2.60	–	–	$2.33

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 2.21 years (2017 – 0.52 years).

FY2018 deferred STI award
Board resolved on the date of this report to grant share rights for the deferred portion of the CEO's STI for FY2018 as per her contract. The value of the share rights in total has been determined but the VWAP used to calculate the number of performance rights to be issued has not yet been struck. The rights are expected to be granted in the first week of September 2018 with 50% vesting 14 September 2019 and 50% vesting 14 September 2020. The accounting grant date for these share rights are 3 April 2018.

Note 27: Share-based payments (continued)

(c) Expenses arising from share-based payment transactions

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

	2018 $'000	2017 $'000
Shares issued under PSP	**(279)**	884
	(279)	884

Note 28: Parent entity financial information

(a) Summary financial information

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

	2018 $'000	2017 $'000
Balance sheet		
Current assets	**105,831**	107,795
Total assets	**390,764**	365,768
Current liabilities	**79,459**	70,016
Total liabilities	**307,774**	262,518
Shareholders' equity		
Issued capital	**7,764**	7,277
Share-based payments reserve	**1,309**	2,075
Retained profits	**73,917**	93,898
	82,990	103,250
Profit or loss for the year	**3,842**	22,036
Total comprehensive income	**3,842**	22,036

(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 $853,111 (2017 – $723,150). 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 2018 or 30 June 2017.

Directors' Declaration

for the year ended 30 June 2018

In the Directors' opinion:

(a) the financial statements and notes set out on pages 44 – 88 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 2018 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*.

Vicki Allen
Chairman

Sydney
20 August 2018

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Mortgage Choice Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of their financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were

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addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>Future Trailing commissions

As at 30 June 2018, the Group has recognised trailing commissions receivable of $361 million as disclosed in Note 7 and trailing commissions payable of $261 million as disclosed in Note 11 and 13 representing the net present value of future trailing commissions receivable and payable by the Group.

These are measured at fair value at initial recognition and at amortised cost subsequent to initial recognition of the trailing commissions receivable and payables. Fair value at recognition requires significant management judgement with regard to:
• Estimation of the discount rate to be applied to loans originated in that year,
• Loan book run off rate assumptions; and
• Percentage of commissions paid to franchisees.</td><td>Our audit procedures included but were not limited to:

• Evaluating and testing the key controls management have in place to determine the net present value of the future trailing commission receivable and payable,
• Comparing previously forecast trailing commission income and expense by management to the actual results to assess historical accuracy of management's estimates,
• Assessing the extraction of loan data used in management's model for completeness,
• Evaluating the accuracy of the loan data by matching a sample of loans listed on the loan data to external Lender Commission Statements,
• Challenging the reasonableness of management's assumptions in the determination of the trailing commission receivable and payable based on industry comparative run off rates and market observable inputs for the discount rate,
• Developing an expectation of the percentage to be paid to franchisees based on the loan book data and new remuneration structure communicated; and
• Engaging internal experts to independently develop a model, using the loan data inputs and assumptions applied by management, to recalculate the valuation of trailing commission receivable and payable. This was compared to management's valuation, in order to test the integrity and mathematical accuracy of management's model.

We also considered the appropriateness of the Group's disclosures in Note 3 the financial statements.</td></tr>
</table>

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 35 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Mortgage Choice Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

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Heather Baister
Partner
Chartered Accountants
Sydney, 20 August 2018

Shareholder Information

for the year ended 30 June 2018

The shareholder information set out below was applicable as at 31 July 2018.

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	**1,038**
1,001 – 5,000	**2,230**
5,001 – 10,000	**1,112**
10,001 – 100,000	**1,253**
100,001 and over	**60**
	5,693

There were 200 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**	16.49
J P Morgan Nominees Australia Limited	**13,211,065**	10.57
Ochoa Pty Ltd	**9,620,000**	7.70
HSBC Custody Nominees (Australia) Limited	**7,258,941**	5.81
Citicorp Nominees Pty Limited	**4,609,125**	3.69
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	**3,506,989**	2.81
R G Higgins	**2,094,226**	1.68
National Nominees Limited	**2,065,499**	1.65
SCJ Pty Limited <Jermyn Family A/C>	**2,000,000**	1.60
Pacific Custodians Pty Limited <Employee Incentive Tst>	**748,782**	0.60
S C Jermyn <Jermyn Family S/Fund A/C>	**500,000**	0.40
TM Paddy Pty Ltd <Murray Ball Family A/C>	**475,444**	0.38
Mr Mike Fegelson	**400,000**	0.32
Mr David Madden	**400,000**	0.32
BNP Paribas Noms Pty Ltd <Agency Lending DRP A/C>	**355,202**	0.28
Macren Pty Ltd <Macren S/F A/C>	**350,000**	0.28
Mr Peter David Ritchie & Mrs Leigh Margaret Ritchie <Ritchie Fam S/Fd A/C>	**314,863**	0.25
BNP Paribas Noms Pty Ltd <DRP A/C>	**308,375**	0.25
Pacific Custodians Pty Limited <MOC Plans Ctrl A/C>	**293,496**	0.23
Pacific Custodians Pty Limited <Perf Share Plan Tst A/C>	**285,195**	0.23
NSR Investments Pty Ltd <NSR Super Fund A/C>	**260,000**	0.20
	69,668,987	55.74

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held
Ordinary shares	
Commonwealth Bank of Australia*	**25,048,763**
R G Higgins and Ochoa Pty Ltd	**15,231,215**
FMR Corp. & Fidelity International Limited	**13,706,414**
Pinnacle Investment Management Group Limited and Spheria Asset Management Pty Limited	**9,055,123**

* The relevant interests in 4,031,949 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

Corporate Directory
for the year ended 30 June 2018

Directors
V L Allen
Chairman

S J Brennan

S J Clancy

A C Gale

P G Higgins

R G Higgins

S C Jermyn

Chief Executive Officer
S R Mitchell

Secretary
D M Hoskins

Executives

Acting Chief Financial Officer
J M Stevenson

General Manager, Distribution
N C Rose-Innes

General Manager, Group Marketing
M J McCarney

General Manager, Product
E A Dupont-Brown

General Manager, Financial Planning
T J Milnes

General Manager, Human Resources
M J Pitton

Head of IT
V C ten Krooden

Notice of Annual General Meeting
The Annual General Meeting of
Mortgage Choice Limited

will be held at:

Mortgage Choice Limited
Level 10
100 Pacific Highway
North Sydney NSW

Time: 10am

Date: 24 October 2018

Registered office
Level 10
100 Pacific Highway
North Sydney NSW 2060
(02) 8907 0444

Share register
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
(02) 8280 7111

Auditor
Deloitte Touche Tohmatsu
Chartered Accountants
Grosvenor Place
225 George Street
Sydney NSW 2000

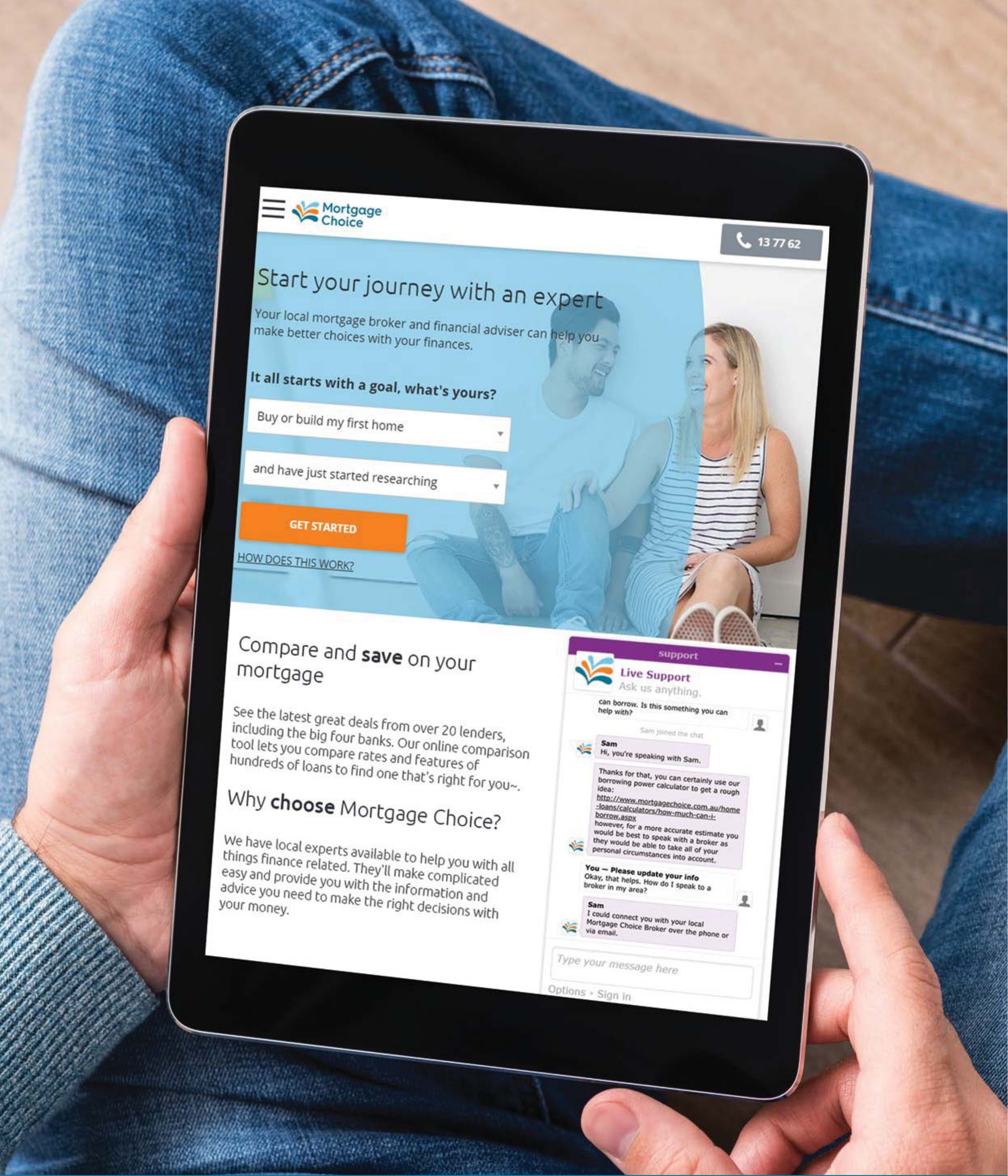
Solicitors
Herbert Smith Freehills
ANZ Tower
161 Castlereagh Street
Sydney NSW 2000

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

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

Website address
www.mortgagechoice.com.au

Designed and produced by FCR
www.fcr.com.au



Mortgage Choice

Better choices for a better life

MortgageChoice.com.au