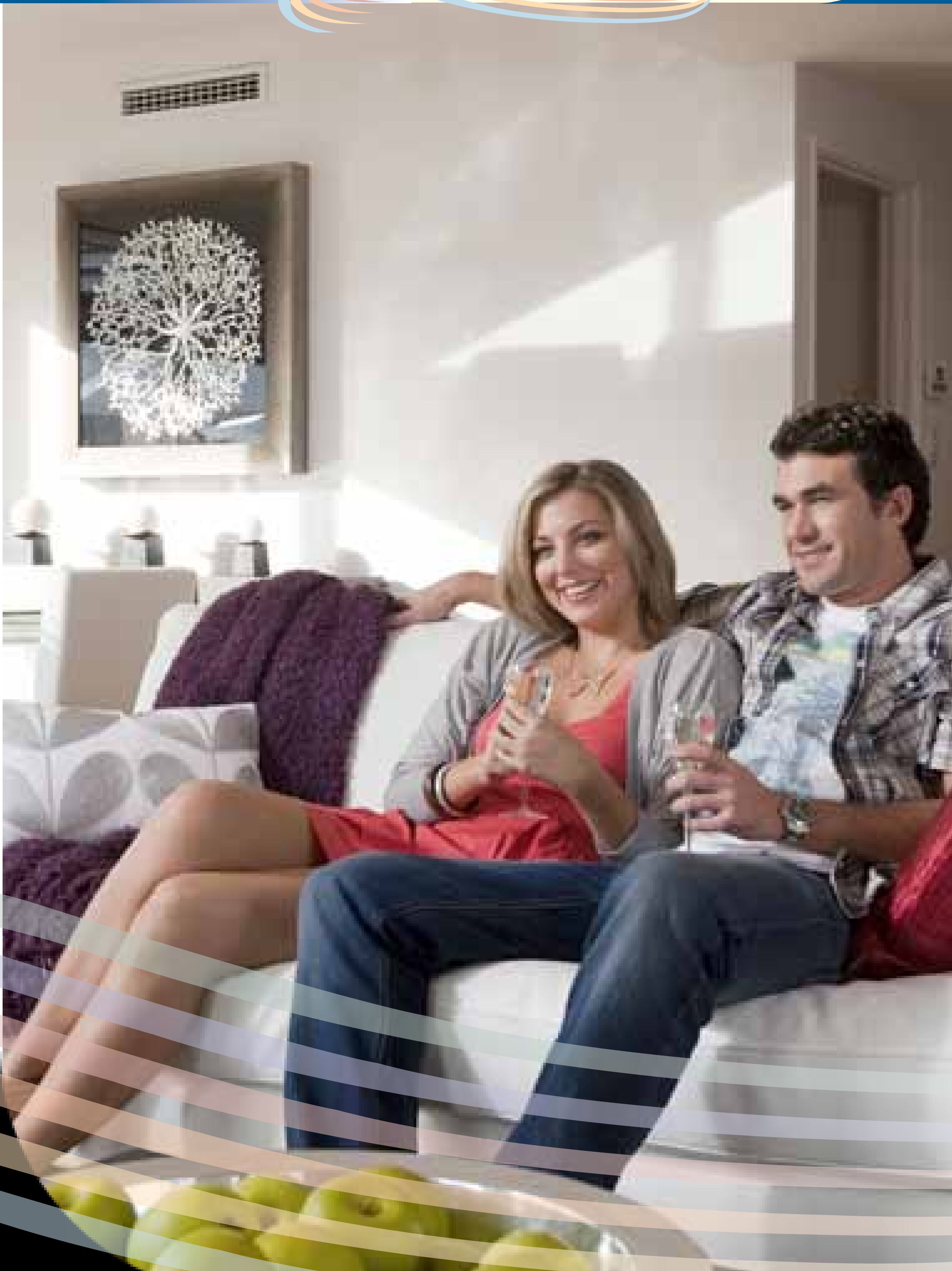
Homeloans

think differently

# Annual Report 09/10



# CORPORATE INFORMATION

This annual report covers both Homeloans Limited as an individual entity and the Group's financial report incorporating Homeloans Limited and the entities that it controlled during the financial year. The Group's functional and presentation currency is AUD ($).

A description of the consolidated operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 10 to 23.

## Directors

Timothy Holmes (Executive Chairman/Managing Director)
Robert Salmon (Non-Executive Director)
Robert Scott (Non-Executive Director)
Brian Benari (Non-Executive Director)
Andrew Hall (Non-Executive Director)

## Company Secretary

Jennifer Murray

## Registered Office

Level 9, The Quadrant
1 William Street
Perth WA 6000
Phone: (08) 9327 1777
Facsimile: (08) 9327 1778

## Corporate Office

Level 16,
68 Pitt Street
Sydney NSW 2000
Phone: (02) 8267 2007
Facsimile: (02) 8267 2045

## National Office

Level 2, The Atrium
168 St Georges Terrace
Perth WA 6000
Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
Web site: www.homeloans.com.au

## Postal Address

PO Box 7216
Cloisters Square
Perth WA 6850

## Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

## Bankers

Westpac Banking Corporation
Westpac Place, Kent Tower
275 Kent Street
Sydney NSW 2000

## Auditors

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

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# Executive Chairman's Report

**'On behalf of your Board I am delighted to present the 2010 Annual Report for Homeloans Limited'**

**It is very pleasing to see the Company emerge from the challenges of recent years in a strong position and continue to deliver record results. This is a testament to our strategic direction and reflects the performance and commitment of the executive management team and all staff.**

For the year ended 30 June 2010 Homeloans recorded another record statutory net profit after tax result of $12.3m, up 71% on the previous financial year result of $7.2m. On a normalised basis, excluding non cash adjustments, net profit after tax was $9.2m, up 10% on the prior year result of $8.3m.

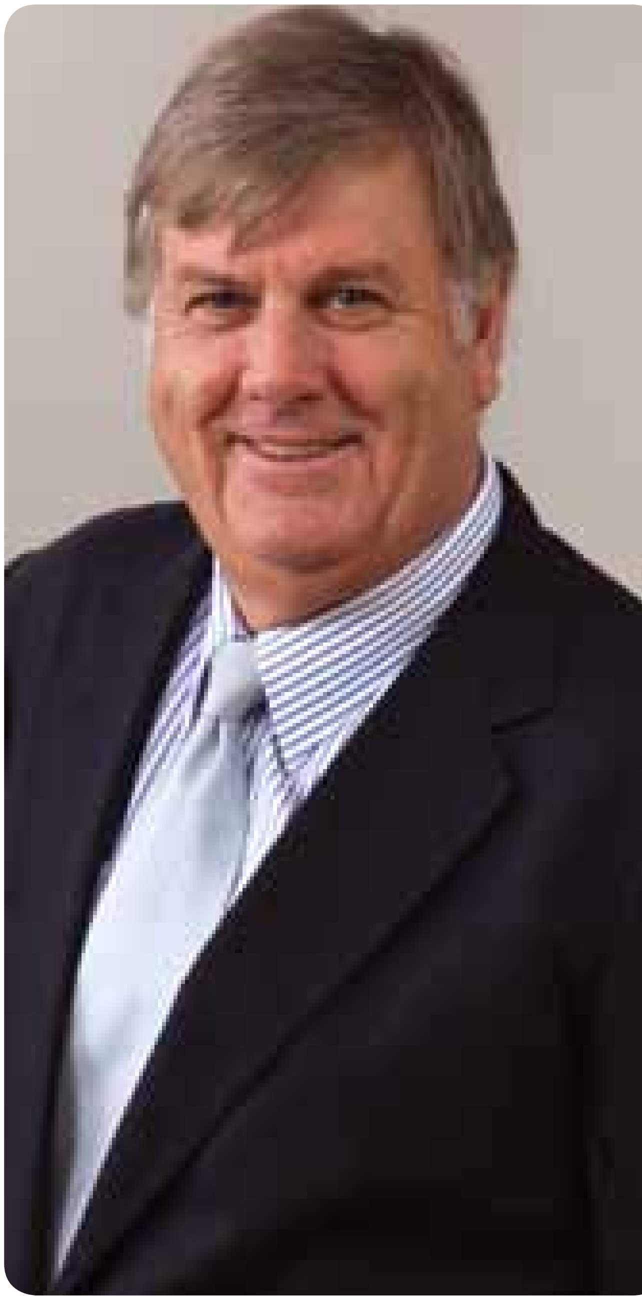
Basic earnings per share increased by a significant 70% to12.21 cents and net tangible asset backing per share increased 5% to 56.1 cents compared to 30 June 2009. The Board declared a fully franked final dividend of 3.5 cents per share, bringing the total dividend to 7 cents per share for the year, fully franked.

This is an excellent result with the Group having emerged from the challenges of recent years in a strong position. Lending volumes increased during the period, supported by an improved mortgage market, and this resulted in a 36% increase in net fee and commission income to $14.6m. Despite the growth in lending volumes, operating expenses (excluding loan loss provisioning) remained stable at $17.3m. This is a particularly pleasing achievement and is the result of continued improvements in operating efficiencies across the business.

Net interest income was down 20% to $15.7m due to reduced balances in the Company's securitised loan portfolio. The Group did not originate any new loans into its securitised vehicle during the year due to the funding restrictions that continue to impact this area of credit markets.

The past 12 months have seen a recovery in housing and credit markets and this has presented growth opportunities for the business. The availability of funding improved throughout the year, which together with improving economic conditions and renewed confidence from borrowers resulted in increased activity within the mortgage lending market. The improvement in the availability of funding was of particular significance as it enabled the Group to launch a broader product offering which enhanced its competitive positioning relative to the major banks and other lenders. This, coupled with a superior service level proposition and improved distribution capabilities, enabled the Group to generate increased origination activity during the year.

The Group has continued to benefit from a diversified wholesale funding base and is well placed to continue this momentum over the next 12 months.



**Tim Holmes**

Homeloans has maintained strong capital reserves over the course of the financial year. The Company's outstanding recourse debt facilities of $11m were repaid in full during the year from strong levels of underlying operating cashflow.

On 6 September 2010, Homeloans shareholders approved the capital return of 35 cents per share that was announced by the Company in late July. The capital return was a logical step for the Board to take to ensure an efficient capital structure. The Group will retain a solid capital base after the return and the Board is confident that ongoing cash reserves will be sufficient to meet the Group's ongoing funding requirements including future business development and investment.

## INDUSTRY OVERVIEW

The period continued to be a challenging one for the non-bank sector as the major banks retained their pricing advantage in the wake of the Government's actions to support the industry during the global financial crisis.

The premium on interest rates for residential mortgage-backed securities (RMBS) has impacted on the ability for them to be marketed effectively at competitive prices to attract investors. There was some improvement in pricing of RMBS during the year and this resulted in an increase in the number of new issues taking place. The number of issuers, however, remains limited. Government guarantee of mortgage backed securities would restore a level playing field for all lending providers with improved pricing enabling more competitive products and better options for customers.

Homeloans' extensive market research has revealed that more customers are expressing an interest in dealing with non-bank lenders. The limitations imposed by the cost of funding have, however, limited the ability to realise the full potential of these opportunities.

It is to be hoped that the re-elected Government reassesses its position on residential mortgage backed securities as a way to re-ignite competition in the market which has diminished in recent years in the wake of consolidation, acquisitions and departures from the industry.

These structural changes within the industry have also presented opportunities for Homeloans. With fewer brands in the marketplace, we have been able to strengthen our position as a prominent alternative to the major banks. This has been a key aspect of our strategic focus and will be an important driver as we continue to grow and build market share through a combination of product innovation and continuing to offer a superior service proposition.

Since late in the 2009 calendar year we have seen some easing in credit policy across the mortgage market, albeit in specific areas. Homeloans has directly benefited from these policy changes which have been passed onto us by our key wholesale funding partners and which have enabled us to improve and expand our product range during the year. Most recently, we have seen the re-introduction of 95% LVR loans as well as the introduction of improved Lo Doc options which has further enhanced our product offering.

The housing market remained robust during the year, although the Reserve Bank's successive target cash rate increases during the middle stages of the financial year resulted in more subdued lending activity towards the end of the period. The Australian housing market remains susceptible to potential volatility over coming years with the average metropolitan housing price appearing expensive in comparison to similar markets internationally. Countering this, however, is the acute housing shortage that remains across most of Australia's metropolitan centres.

In closing, I wish to thank my fellow Directors and the Staff of Homeloans Ltd for their ongoing support throughout the year.

Timothy A. Holmes
Executive Chairman

# The Year in review

## Profit
Homeloans recorded a statutory net profit after tax of $12.3m for the year ended 30 June 2010, up 71% on the previous financial year result of $7.2m. On a normalised basis excluding non-cash adjustments, net profit after tax was $9.2m, up 10% on the previous corresponding financial year result of $8.3m.

Net tangible asset backing per share increased 5% to 56.1 cents compared to 30 June 2009.

## Dividend
The Board has declared a fully franked final dividend of 3.5 cents per share, bringing the total to 7 cents per share for the year, fully franked.

## Earnings per share
Basic earnings per share increased significantly by 70% to12.21 cents.

## Changes to the Board of Directors
There were no changes to the Board of Directors during the financial year.

## Management and Personnel
Homeloans has 100 full time equivalent staff and 37 retail consultants nationally. Homeloans' objective when recruiting staff is to identify and employ staff who fit the corporate culture of the company, and to facilitate their growth within the business. Skills are developed by a combination of mentoring, training and on the job experience, expanding their knowledge of the industry.

The Company's executive management team remained unchanged during the year. In August 2010, the Executive Manager of Finance, Cameron Matthews, was appointed Chief Financial Officer of the Company.

## Distribution and Marketing
Homeloans was founded in 1985 and listed on the Australian Stock Exchange in 2001. In 25 years Homeloans has developed a wide range of products to meet the needs of all types of customers, from first home buyers to investors. We have an Australia-wide presence and have built a reputation for providing a refreshing alternative to the banks for home finance, differentiated by a clear focus on customer service.

Homeloans has developed two distinct distribution channels to reach Australian borrowers: third party – whereby our mortgage broker partners distribute loans to the end customer – and direct distribution to customers via our mobile lenders, satellite offices and internal loan writers.

## Distribution – Third party
The environment remained challenging for those operating in the non-bank sector during the year, as these players focused on reclaiming the market share lost to the major banks following the onset of the global financial crisis. For Homeloans, a number of pricing and credit policy changes made by our key wholesale funding partners from the end of the first half of the year enabled us to improve our competitive positioning relative to the major banks.

As a result, Homeloans was able to grow third party sales volumes over the second half of the year. Whilst we expect to continue this momentum over the next 12 months, lending volumes are likely to be affected by a combination of higher interest rates and continued intense pricing competition in the market.

We see ongoing opportunities for further sales growth through the third party channel which we are confident in achieving by continually improving our competitive positioning via further product enhancements together with delivering on our superior service proposition.

During the year, Homeloans also launched a new third party distribution channel called "Access Home Loans" which provides a product offering to financial service providers such as accountants and financial planners. We believe this area presents some good growth opportunities for us.

## Distribution - Direct Sales
The past year has seen our retail distribution channel continue to build its presence throughout Australia. Our previous strong representation in Western Australia and South Australia has continued with this channel also seeing an increase in market share in both Queensland and Victoria.

Our push into regional Queensland has been supported by the relationship with former NRL champion and Channel 7 personality Shane Webcke. We have used Shane's profile to assist in building the Homeloans brand, with results to date being encouraging. The Victorian expansion has continued with the opening of three satellite offices resulting in increased volume of retail business being written.

We have also recently formed a relationship with AFL champion Matthew Pavlich to assist us in increasing awareness of the Homeloans brand within our Western Australian, South Australian and Victorian markets. Already we have found that the relationships with both Shane and Matthew have raised our profile in these markets.

Our plans are to continue to grow the level of sales volumes through our direct channels. This will be achieved by further expansion of our distribution network, together with raising the awareness of the Homeloans brand via the rollout of targeted and effective marketing initiatives.

## Marketing
During the year Homeloans concentrated significantly on refining its brand primarily through understanding market perceptions about the positioning of Homeloans and realigning the brand to enable the business to be positioned as a genuine alternative to the banks.

This exercise involved the establishment of new elements to our visual branding, and ensuring that all communications conform to the brand style guide. Our reinvented brand and clearer market positioning have enabled us to build the presence of the Homeloans brand more effectively.

To ensure our people behave in a manner that is consistent with our brand positioning we created new organisational values which have been successfully and enthusiastically embraced.

Homeloans undertook a number of marketing initiatives during the year, seeking to build the brand and generate sales leads. These involved online advertising, newspaper and magazine advertising and publicity, in addition to regional Queensland television advertising. This activity has lead to a 33% increase in awareness of Homeloans nationally.

We also invested in customer relationship management during the year, through a project which defined a contact strategy outlining all interactions with prospective, existing and former customers. A new software system enabled the execution of this contact strategy. While the primary objective is to increase retention, it also serves as an effective acquisition tool.

The implementation of Homeloans customer relationship management strategy saw the introduction of a customer benefits program, which gives customers access to a range of discounts and great deals on a number of goods and services, including groceries, fuel, dining and entertainment.

On 1 January 2010, as a means to demonstrate our social and environmental awareness, Homeloans became Carbon Conscious™, whereby a tree is planted for every newly settled Homeloans loan.

## Funding

Access to, and the price of funding continued to be a key theme for all financial institutions, including all mortgage lenders. While there was some improvement in the demand for RMBS, this market remained relatively restrictive. As a result, Homeloans' proprietary funding line RMT remained idle during the year.
Due to strong support from a diversified wholesale funding base, Homeloans has retained a strong level of liquidity from which to fund its growth in lending volumes. This remains a key advantage for us and will continue to support our plans for growth in the future.

## The Year Ahead

As we celebrate our 25th year, the Board feels confident about the future. Homeloans has continued to build on its sound base with a clear strategic direction that will see us continue to grow our market position across Australia as a preferred alternative to the major banks.

Financial statements

# HOMELOANS LIMITED

ABN 55 095 034 003

30 JUNE 2010

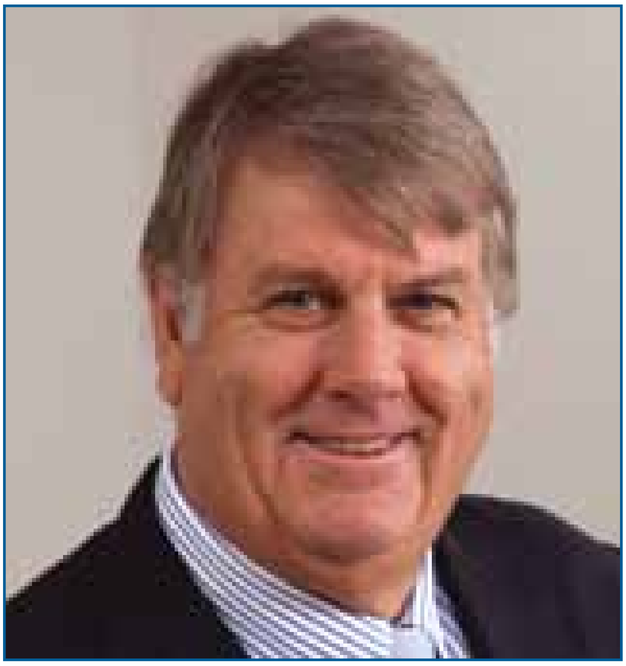
# DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2010.

## DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

## NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES



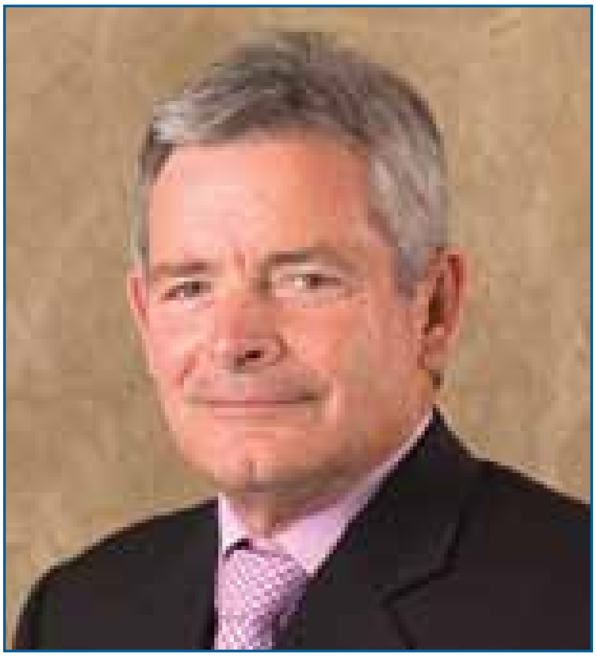
**Timothy Alastair Holmes (Executive Chairman/Managing Director)**

Tim was appointed Managing Director on 1 October 2008. Tim is also Chairman of the Board (appointed 1 July 2003) and was previously appointed as a director on 9 November 2000. He has 42 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He is also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry. Tim has not held any other Directorships of listed companies over the past three years.

**Robert Peter Salmon (Non-Executive Director)**

Appointed 9 November 2000. Rob has 40 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia. Rob is a member of the company's audit and nomination and remuneration committees. Rob has not held any other Directorships of listed companies over the past three years.

*DIRECTORS' REPORT (Continued)*



### Robert Norman Scott (Non-Executive Director)

Appointed 9 November 2000, Rob is a Chartered Accountant with over 35 years experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995 and now consults to Perth based Gooding Partners Chartered Accountants. Rob is chairman of the company's audit committee and is a member of the company's remuneration and nomination committee.

Rob serves as a non executive director of the following listed companies:

- Sandfire Resources NL (Appointed 30 July 2010)
- CGA Mining Limited (Appointed 8 January 2009)
- Neptune Marine Services Limited (Appointed 17 May 2007)
- Australian Renewable Fuels Limited (Appointed 24 December 2002)
- BioMD Limited (Appointed 23 June 1999)
- Amadeus Energy Ltd (Appointed 30 October 1996)

Rob was formerly a director of New Guinea Energy Ltd from July 2006 to May 2009.

### Brian Roland Benari (Non-Executive Director)

Appointed 3 May 2007. Brian is the Chief Financial Officer / Chief Operating Officer of Challenger Financial Services Group Limited. Prior to his appointment to this role in November 2008, Brian was Chief Executive of Challenger Mortgage Management. He led the acquisition by Challenger of Interstar Securities, Australia's largest non-bank lender from Zurich Capital Markets. Prior to this Brian was formerly Chief Operating Officer/Chief Financial Officer with Zurich Capital Markets, and also held senior executive roles with Macquarie Bank and Bankers Trust. Brian is a Chartered Accountant and has a Bachelor of Business from Curtin University (WA). Brian is a member of the company's audit committee and is also a member of the company's nomination and remuneration committee. Brian has not held any other Directorships of listed companies over the past three years.

### Andrew Loddington Hall (Non-Executive Director)

Appointed 28 October 2008. Drew is the Chief Executive Officer of Advantedge Financial Services with mortgages under management and administration of over $135 billion. Prior to this Drew was the Chief Executive of Challenger Mortgage Management and Chief Financial Officer / Chief Operating Officer from 2003 – 2008. Before joining Challenger Drew held senior executive roles at Zurich Capital Markets, Macquarie Bank and Bankers Trust. Drew is a Chartered Accountant and has a Bachelor of Business from the University of Technology, Sydney. He is also an Associate of FINSIA. Drew is a member of the company's audit committee and is chairman of the company's nomination and remuneration committee. Drew has not held any other Directorships of listed companies over the past three years.

*DIRECTORS' REPORT (Continued)*

## COMPANY SECRETARY

### Jennifer Murray

Jennifer Murray was appointed company secretary to Homeloans Limited on 9 November 2000. She is a Chartered Secretary and has over 27 years experience in providing corporate secretarial services for both public and proprietary companies. She is presently the Senior Manager, Corporate Secretarial Services for Perth based Gooding Partners Chartered Accountants.

## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of Homeloans Limited were:

| | Number of Ordinary Shares | Number of Options Over Ordinary Shares |
|---|---|---|
| T A Holmes | 12,476,795 | - |
| R P Salmon | 12,114,186 | - |
| R N Scott | 2,078,954 | - |
| B R Benari | - | - |
| A Hall | - | - |

## DIVIDENDS

| | Cents | $'000 |
|---|---|---|
| Final dividends recommended: | | |
| - on ordinary shares | 3.5 | 3,534 |
| Dividends paid in the year: | | |
| Interim for the year | | |
| - on ordinary shares (fully franked) | 3.5 | 3,534 |
| Final dividend for 2009 | | |
| - on ordinary shares (fully franked) | 5.5 | 5,532 |

## PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Group were:

- mortgage origination and management of home loans; and
- securitisation of mortgages through the Residential Mortgage Trust (RMT), a special purpose vehicle ("SPV") used to issue residential mortgage backed securities.

The principal activities were conducted under the brand names Homeloans Limited, Access Home Loans, Independent Mortgage Corporation Pty Ltd, Auspak Financial Services Pty Limited and FAI First Mortgage Pty Ltd. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, Advantedge Financial Services (formerly Challenger Mortgage Management), Origin Mortgage Management Services, ING Bank (Australia) Limited, Residential Mortgage Trust and other institutions.

## OPERATING AND FINANCIAL REVIEW

### *Group Overview*

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 9 November 2000 acquiring the assets and liabilities of IF & I Securities Pty Ltd (as trustee for the IF & I Securities Unit Trust) and Anedo Pty Ltd. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

Homeloans Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

### *Review of operations*

A review of operations of the Group during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the Group are set out in this report.

### *Performance Indicators*

Management and the Board monitor the Group's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets. The Board, together with management, have identified key performance indicators (KPI's) that are used to monitor performance. Management monitor KPI's on a regular basis. Directors receive the KPI's for review prior to each monthly board meeting allowing all directors to actively monitor the Group's performance.

### *Operating Results for the Year*

On a statutory basis, net profit after tax for the year was $12,253,000, an increase of 71% on the previous financial year result of $7,166,000. On a normalised basis, excluding non cash adjustments, net profit after tax was $9,192,000, up 10% on the comparable prior year result of $8,347,000.

## *DIRECTORS' REPORT (Continued)*

The Group has delivered another very strong result and has emerged from the challenges of recent years in a strong position. Lending volumes increased during the period, supported by an improved mortgage market, and resulted in a 36% increase in net fee and commission income to $14,614,000. Despite the growth in lending volumes, operating expenses (excluding allowance for impairment of loans and advances) remained stable at $17,305,000, the result of continued improvements in operating efficiencies across the business. Net interest income was down 20% to $15,669,000 due to reduced balances in the company's securitised loan portfolio.

The past 12 months have seen a recovery in housing and credit markets and this has presented growth opportunities for the business. The availability of funding improved throughout the year which, together with improving economic conditions and renewed confidence from borrowers, resulted in increased activity within the mortgage lending market. The improvement in the availability of funding was of particular significance as it enabled the Group to launch an improved product offering which enhanced its competitive positioning relative to the major banks and other lenders. These product enhancements coupled with a superior service level proposition and improved distribution capabilities, enabled the Group to generate increased origination activity during the year.

In the current financial year, the Group's income tax expense includes benefits from changes to the tax consolidation legislation. The benefit recognised in the financial statements is $2,458,000.

The Group has also made a non cash adjustment in the current year financial result relating to the "Securitisation of Mortgages" segment. The loans within the RMT SPV's generated solid cashflows during the year and this is expected to continue into the future. In light of this, the Group has recognised a gain on re-estimating cash flows on loans and advances using the original effective interest rate. The adjustment is a gain after tax of $603,000.

These two adjustments, which total $3,061,000 and which represent a net gain after tax, have been adjusted from the statutory net profit after tax result to arrive at the "normalised" net profit after tax result stated above.

The Group's warehouse facility has been extended for a further 12 months to 30 June 2011 and there are regular discussions with the warehouse provider in relation to future maturity of the facility. Although there has been some improvement in credit markets during the year, there still remains a degree of uncertainty over the medium term horizon. It should be noted that the warehouse facility is structured so that if it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

The Board is very positive about the outlook for the company. The momentum in lending activity achieved during the year is expected to continue over the year ahead. The Group will continue to leverage off its diversified funding base while also focusing on expanding its nationwide distribution capabilities, delivering further product enhancements and promoting the company's unique brand.

The Group has maintained strong capital reserves over the course of the financial year. The company's outstanding recourse debt facilities of $10,852,000 were repaid in full during the year from strong levels of underlying operating cashflow. Subsequent to balance date on 22 July 2010, the Company announced to the market its intention to undertake a capital return of 35 cents per share, subject to shareholder approval. The Group will retain a solid capital base after the return, with residual cash reserves being supplemented by strong operating cashflows generated from continued earnings. The Board believes the ongoing cash reserves will be more than sufficient to meet the Group's ongoing funding requirements including future business development and investment.

### Summarised operating results are as follows:

| | 2010 | |
|---|---|---|
| | **Revenues $'000** | **Results $'000** |
| Operating segments<br>Origination and Management | 34,160 | 4,429 |
| Securitisation of Mortgages | 43,176 | 10,083 |
| Non-segment and unallocated expenses | - | (429) |
| Group revenue and profit from operating activities before income tax expense | 77,336 | 14,083 |

*DIRECTORS' REPORT (Continued)*

## Shareholder Returns

The company is pleased to report growth in underlying (i.e. before non-cash adjustments) basic earnings per share of 9% to 9.17 cents, demonstrating the continued strong performance of the business.

| | 2010 | 2009 | 2008[1] | 2007[1] | 2006[1] |
|---|---|---|---|---|---|
| Basic earning per share (cents) before non-cash adjustments | 9.17 | 8.38 | 4.64 | 3.44 | 1.82 |
| Basic earning per share (cents) after non-cash adjustments | 12.21 | 7.20 | (12.42) | 3.44 | 1.82 |
| Return on assets (%) | 2.0% | 0.9% | (1.2%) | 0.2% | 0.1% |
| Return on equity (%) | 17.7% | 11.0% | (20.8%) | 2.9% | 3.4% |
| Dividend payout ratio (%) | 57.7% | 96.4% | (16.1%)[2] | 97.9% | 274.6%[3] |

Debt to equity measures have not been disclosed due to the impact of the consolidation of RMT. Consolidation of RMT adds significant debt to the Group's Statement of Financial Position without any commensurate impact on equity. RMT, under its trust structure, has assets and liabilities that offset and no equity interests.

1. Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy on the recognition of revenue and expenses on the origination and loan management business in the financial year ended 30 June 2007.

   Results for 2007 and 2008 have been further adjusted based upon the Group's change in accounting policy on the computation of the effective interest rate method on loan assets.

   As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.

2. An interim dividend was paid based on a result prior to impairment losses toward the end of 2008 financial year. No final dividend was paid as a result of the statutory loss recorded of $12,511,000 in 2008.

3. It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year.

## Liquidity and Capital Resources

The Group's Statement of Cash Flows illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2010 of $16,259,000 (2009: Increase of $1,251,000).

Operating cash flow includes cash available to the investors in the special purpose vehicles (SPV) of RMT, which is maintained in the trust cash collections accounts. The balance of cash in these cash collections accounts is not available to the Group. The movement in these cash balances during the financial year was negative ($7,449,000) (2009: positive movement of $1,111,000). Therefore, if the RMT SPV's had not been consolidated, total Group operating cashflow would have been $10,520,000 (2009: $13,885,000).

The company fully repaid all outstanding recourse debt facilities during the year – a total of $10,852,000. These comprised a cash advance facility with its bankers (balance as at 30 June 2009 was $8,429,000) and a net interest margin facility within the Residential Mortgage Trust (balance as at 30 June 2009 was $2,423,000). The Group has sufficient funds to finance its operations. The Group also has an overdraft facility of $900,000 which was unutilised at 30 June 2010, primarily to allow for timing mismatches. The Residential Mortgage Trust has a warehouse facility of $400,000,000 as at 30 June 2010 (2009: $750,000,000) drawn to $390,753,000 at 30 June 2010 (2009: $516,742,000).

### Asset and capital structure

| Profile of Debts | 2010 $'000 | 2009 $'000 |
|---|---|---|
| The profile of the Group's debt finance is as follows: | | |
| Bank loans – secured | 390,753 | 527,594 |
| Due to bondholders | 111,591 | 164,561 |
| Loans from funders | 3,818 | 3,958 |
| | 506,162 | 696,113 |

The amount of the Group's debts has decreased over the financial year due to a reduction in loan balances within the RMT trusts as well as the repayment of corporate loan facilities previously held by the Group.

### Capital Expenditure

There has been a decrease in cash due to the purchase of equipment during the year ended 30 June 2010 of $208,000, compared to $96,000 in the year ended 30 June 2009.

### Risk Management

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the company's risk management framework.

The fundamental aim of the company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders. The company recognises three main types of risk:

- Market risk – the risk of change in earnings from changes in market factors such as interest rates, housing market and economic conditions;

- Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events; and

- Liquidity risk – the risk of failure to adequately fund cash demand in the short term.

The Managing Director and Finance Manager periodically provide formal statements to the Board that in all material aspects:

- the company's financial statements present a true and fair view of the Group's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPI's of both a financial and non-financial nature.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 22 July 2010, the directors of the company announced to the market their intention, subject to shareholder approval, to return 35 cents per share to shareholders via a reduction of capital. The return was approved at a shareholder meeting held on 6 September 2010 and is payable on 21 September 2010. The payment, which will be made to holders of fully paid ordinary shares, will total approximately $35m.

On 27 August 2010, the Directors of the company declared a final dividend in respect of the year ended 30 June 2010 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2010 financial statements. The final dividend is payable on 21 September 2010.

Other than the matters reported above, there has been no other matter or circumstance that has arisen since the balance date that has affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent periods.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the Group would, in the opinion of the directors, be likely to result in unreasonable prejudice to the Group.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to any specific license or agreement to comply with the requirements of environmental protection authorities in Australia.

## SHARE OPTIONS

### Unissued shares

As at 30 June 2010, there were 1,177,500 (2009: 3,697,500) unissued ordinary shares under options. During the period between the reporting date and the date of completion of the financial statements, 952,500 shares have been issued as a result of options being exercised, leaving a balance of 225,000 unissued shares under options as at the date of this report.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

2,507,500 ordinary shares were issued as a result of the exercise of options during the year under review. 12,500 options were forfeited during the year on resignation of staff.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums in respect of a contract insuring all the directors of Homeloans Limited against a liability incurred in their role as directors of the company, except where:

(a) The liability arises out of conduct involving a willful breach of duty; or
(b) There has been a contravention of Sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

Terms, conditions and rates are commensurate with the market. The policy prohibits disclosure of the nature of the indemnification and insurance cover, and the amount of the premium.

## REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the company and Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Managing Director, the executive management team and other senior managers of the Company and the Group.

### Details of Key Management Personnel (including the five highest remunerated executives of the company and the Group)

*Directors*

| | |
|---|---|
| T.A.Holmes | Executive Chairman |
| B.R.Benari | Director (Non-Executive) |
| R.P.Salmon | Director (Non-Executive) |
| R.N.Scott | Director (Non-Executive) |
| A.L. Hall | Director (Non-Executive) |

*Five Highest Remunerated Executives*

| | |
|---|---|
| L.McDonald | Head of Credit/Underwriting |
| A.Carn | General Manager – Third Party Distribution |
| C.Matthews | General Manager – Finance |
| S.McWilliam | General Manager – Funding and Operations |
| G.Mitchell | General Manager – Retail Sales (from 1 July 2009) |

### Remuneration philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and,
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

### Compensation policy

The Board of Directors of Homeloans Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and officers emoluments to the Company's and Group's financial and operational performance.

In addition, all executives are entitled to annual bonuses payable upon the achievement of KPI's and annual corporate profitability measures, the most important being return on shareholder's equity. Details of company performance and shareholder returns are discussed on page 21 of this report.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options granted as part of their remuneration package.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

### Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

*DIRECTORS' REPORT (Continued)*

## Non-executive director remuneration

### Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

### Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the November 2005 annual general meeting the aggregate maximum sum available for the remuneration of non-executive directors was increased to $250,000 per annum with effect from and including 1 January 2006.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits on. The remuneration of non-executive directors for the period ended 30 June 2010 and 30 June 2009 is detailed in Table 1 on page 19.

## Executive remuneration

### Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Group, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- link reward with the strategic goals and performance of the Company.

### Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee will, from time to time, engage an external consultant to provide independent advice detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

- Short Term Incentive ('STI'); and
- Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each executive by the Nomination and Remuneration Committee. Table 1 on page 19 details the variable component of the Key Management Personnel, including the five highest remunerated executives, of the Company and the Group.

## Fixed remuneration

### Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

### Structure

The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the Key Management Personnel, including the five highest remunerated executives, of the Company and the Group are detailed in Table 1 on page 19.

## Variable remuneration — Short term incentive (STI)

### Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

### Structure

Actual STI payments granted to each executive depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial, corporate and individual measures of performance.

Typically included are measures such as contribution to net profit after tax, loan originations, customer service, risk management, product management, and leadership/team contribution. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme. These measures were chosen and designed to align executive behaviour with long term shareholder wealth creation.

On an annual basis, after consideration of performance against KPI's, an overall performance rating for the company and each individual business unit is approved by the Nomination and Remuneration Committee. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive pool that is allocated to each executive. This process usually occurs within three months after the reporting date.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the Nomination and Remuneration Committee. Payments are made in the following reporting period and are usually delivered as a cash bonus.

There have been no alterations to the STI bonus plans since their grant date.

### *STI Bonus for 2009 and 2010 financial years*

For the 2009 financial year, 100% of the STI cash bonus pool of $450,000 as previously accrued in that period was paid in the 2010 financial year. Included in this amount was $212,500 for the five highest remunerated executives in that year. The remuneration committee determined the STI payments for the 2010 financial year in July 2010. The STI cash bonus for the 2010 financial year is $640,000. This amount comprises a cash bonus of $430,000, which includes $200,000 for the five highest remunerated executives, to be paid in the 2011 financial year, and a "special cash bonus" of $210,000, which includes $170,000 for the five highest remunerated executives. This special cash bonus, which is subject to a loyalty period, is to be paid in December 2010.

## Variable remuneration — Long term incentive (LTI)

### *Objective*

The objective of the LTI plan is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

### *Structure*

LTI grants to executives are most commonly delivered in the form of options, but may take other forms, including cash payments.

In the case of options being issued, the options vest with the executive over varying periods and are not usually subject to a performance hurdle, as these options are issued to executives as a form of retention bonus and incentive to contribute to the creation of shareholder wealth. They usually have a life from date of grant of five years, and are exercisable at specific dates and proportions set at the time of granting the options.

Table 2 and Table 3 on page 20 and 21 provide details of options granted, the value of options, vesting periods and exercised and lapsed options under the LTI plan.

### *LTI Cash Bonus for the 2010 financial year*

In July 2010, the remuneration committee determined a "special cash bonus" for the 2010 financial year. Part of this "special cash bonus", which is also subject to a loyalty period, has been treated as an LTI amount given the payment is to be made in December 2011. This component of the "special cash bonus" was granted to executives based on the measurement of performance against the same set of KPI's as outlined for the STI Bonus which covered financial and non-financial, corporate and individual targets.

The maximum amount to be paid in December 2011 is $210,000, which includes $170,000 for the five highest remunerated executives.
The minimum amount, based on the unlikely scenario of all relevant executives being no longer employed by the Company at the payment date, is nil.

## Employment contracts

### *Managing Director*

The role of Managing Director is currently occupied by the Chairman, Timothy Holmes, as Executive Chairman.

In his role as Executive Chairman, Mr Holmes is being paid the same base salary as the previous Managing Director. While acting in this role, Mr Holmes is not entitled to any STI or LTI, nor will he be entitled to any termination benefits.

### *Other executives*

Under their conditions of employment the employment of the executives may be terminated by either party, by giving 1 month notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, executives are entitled to their statutory entitlements to accrued annual and long service leave.

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

Upon termination all vested options remain in place.

No executives are employed under a fixed term contract.

*DIRECTORS' REPORT (Continued)*

## Remuneration of Key Management Personnel, including the five highest remunerated executives of the Company and the Group

### Table 1: Remuneration for the year ended 30 June 2010 and 30 June 2009

| | | Short term | | | Post employment | Termination benefits | Long Term | Share – based Payment | Total | % performance related | % option related |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Cash Bonus [7] | Non monetary benefits | Superannuation | | Incentive Plans [8] | Options | | | |
| *Executive directors* | | | | | | | | | | | |
| T.A.Holmes [4] | 2010 | 350,000 | - | 6,695 | 31,500 | - | - | - | 388,195 | 0.0% | 0.0% |
| | 2009 | 266,336 | - | 6,106 | 19,038 | - | - | - | 291,480 | 0.0% | 0.0% |
| B.D.Jones [3] | 2010 | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| | 2009 | 90,189 | - | 2,047 | 16,355 | 199,184 | - | - | 307,775 | 0.0% | 0.0% |
| *Non- executive directors* | | | | | | | | | | | |
| R.P.Salmon | 2010 | 50,000 | - | 6,695 | - | - | - | - | 56,695 | 0.0% | 0.0% |
| | 2009 | 50,000 | - | 6,106 | - | - | - | - | 56,106 | 0.0% | 0.0% |
| R.N.Scott | 2010 | 57,500 | - | - | - | - | - | - | 57,500 | 0.0% | 0.0% |
| | 2009 | 57,500 | - | - | - | - | - | - | 57,500 | 0.0% | 0.0% |
| B.R.Benari [1] | 2010 | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| | 2009 | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| A.L. Hall [2] | 2010 | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| | 2009 | - | - | - | - | - | - | - | - | 0.0% | 0.0% |
| *Other Key Management Personnel* | | | | | | | | | | | |
| L. McDonald | 2010 | 174,374 | 60,000 | 8,917 | 15,694 | - | 8,000 | - | 266,985 | 25.47% | 0.0% |
| | 2009 | 163,064 | 80,000 | 8,187 | 14,676 | - | - | - | 265,927 | 30.08% | 0.0% |
| A.Carn | 2010 | 235,000 | 92,500 | 8,917 | 19,800 | - | 21,000 | - | 377,217 | 30.09% | 0.0% |
| | 2009 | 235,000 | 82,500 | 8,187 | 19,800 | - | - | - | 345,487 | 23.88% | 0.0% |
| C.Matthews | 2010 | 171,926 | 92,500 | - | 15,473 | - | 21,000 | - | 300,899 | 37.72% | 0.0% |
| | 2009 | 155,000 | 55,000 | - | 13,950 | - | - | - | 223,950 | 24.56% | 0.0% |
| S.McWilliam | 2010 | 175,000 | 75,000 | - | 15,750 | - | 10,000 | 340 | 276,090 | 30.91% | 0.12% |
| | 2009 | 148,259 | 70,000 | - | 13,343 | - | - | 657 | 232,259 | 30.42% | 0.28% |
| G.Mitchell [5] | 2010 | 175,000 | 50,000 | 6,695 | 15,750 | - | 8,000 | 340 | 255,785 | 22.81% | 0.13% |
| | 2009 | - | - | - | - | - | - | - | - | - | - |
| S. Scahill [6] | 2010 | - | - | - | - | - | - | - | - | - | - |
| | 2009 | 150,000 | 45,000 | - | 13,500 | - | - | 657 | 209,157 | 21.83% | 0.31% |
| **Totals** | 2010 | 1,388,800 | 370,000 | 37,919 | 113,967 | - | 68,000 | 680 | 1,979,366 | | |
| | 2009 | 1,315,348 | 332,500 | 30,633 | 110,662 | 199,184 | - | 1,314 | 1,989,641 | | |

## DIRECTORS' REPORT *(Continued)*

1 Acting as a director in connection with discharging his duties as an executive of Challenger Financial Services Group ("Challenger") and consequently does not currently take fees for his service.

2 Acting as a director in connection with discharging his duties as an executive of Advantedge Financial Services ("Advantedge") and consequently does not currently take fees for his service.

3 B. Jones resigned as Managing Director on 30 September 2008.

4 T. Holmes commenced as Managing Director (Executive Chairman) on 1 October 2008.

5 G. Mitchell became one of the five highest remunerated executives from 1 July 2009.

6 S. Scahill ceased to be one of the five highest remunerated executives from 1 July 2009.

7 Cash bonuses shown in the current financial year represent (i) cash bonus amounts determined in respect of performance in the current financial year which will be paid during the year ended 30 June 2011 and (ii) "special cash bonus" amounts determined in respect of performance which will be paid in December 2010. The cash bonuses shown in the year ended 30 June 2009 include amounts paid during that year in respect of performance in the financial year ended 30 June 2008, as well as bonus amounts determined in respect of performance in the year ended 30 June 2009 which were paid during the year ended 30 June 2010.

8 Amounts shown in the current financial year represent "special cash bonus" amounts determined in respect of performance which will be paid in December 2011.

Table 2:

### Compensation options: granted and vested during the year (Consolidated)

There were no options granted in the current year that affect remuneration for the year ended 30 June 2010 (2009: no options granted). The following table summarises terms and conditions of options vested during that year.

| | | Terms & Conditions for each Grant ^ | | | | | |
|---|---|---|---|---|---|---|---|
| | Vested No. | Grant Date | Fair value per option at grant date ($) | Exercise price per option ($) | Expiry date | First Exercise date | Last Exercise date |
| 30 June 2010 Executives | | | | | | | |
| S.McWilliam | 12,500 | 15/02/2007 | 0.2611 | 0.56 | 29/12/2011 | 29/12/2009 | 29/12/2011 |
| G Mitchell | 12,500 | 15/02/2007 | 0.2611 | 0.56 | 29/12/2011 | 29/12/2009 | 29/12/2011 |
| Total | 25,000 | | | | | | |

| | | Terms & Conditions for each Grant ^ | | | | | |
|---|---|---|---|---|---|---|---|
| | Vested No. | Grant Date | Fair value per option at grant date ($) | Exercise price per option ($) | Expiry date | First Exercise date | Last Exercise date |
| 30 June 2009 Executives | | | | | | | |
| S.McWilliam | 12,500 | 15/02/2007 | 0.2196 | 0.56 | 29/12/2011 | 29/12/2008 | 29/12/2011 |
| G Mitchell | 12,500 | 15/02/2007 | 0.2196 | 0.56 | 29/12/2011 | 29/12/2008 | 29/12/2011 |
| Total | 25,000 | | | | | | |

^ For details on the valuation of the options, including models and assumptions used, please refer to note 16.

*DIRECTORS' REPORT (Continued)*

Table 3:

### Value of options exercised and lapsed during the year (Consolidated)

The following table summarises options exercised and lapsed during the year.

| 30 June 2010 | Value of options exercised during the year | Value of options lapsed during the year |
|---|---|---|
| L. McDonald | 7,100 | - |
| S. McWilliam | 6,021 | - |
| Total | 13,121 | |

No options were exercised or lapsed in the prior year.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Table 4:

### Shares issued on exercise of options

| 30 June 2010 | Number of shares issued | Paid per share $ | Unpaid per share $ |
|---|---|---|---|
| L. McDonald | 50,000 | 0.35 | - |
| S. McWilliam | 25,000 | 0.35 | - |
| S. McWilliam | 12,500 | 0.56 | - |
| Total | 87,500 | | |

### Company performance and shareholder returns

The Company is pleased to report growth in underlying (i.e. before non-cash adjustments) basic earnings per share of 9% to 9.17 cents, demonstrating the continued strong performance of the business.

| | 2010 | 2009 | 2008 [1] | 2007 [1] | 2006 [1] |
|---|---|---|---|---|---|
| Basic earnings (loss) per share (cents) after non-cash adjustments | 12.21 | 7.20 | (12.42) | 3.44 | 1.82 |
| Return on assets (%) | 2.0% | 0.9% | (1.2%) | 0.2% | 0.1% |
| Return on equity (%) | 17.7% | 11.0% | (20.8%) | 2.9% | 3.4% |
| Dividend payout ratio (%) | 57.7% | 96.4% | (16.1%) | 97.9% | 274.6% |
| Share price (cents) | 70.0 | 55.0 | 48.0 | 56.5 | 10.5 |
| Dividends (cents) | 7.0 | 7.0 | 2.0 | 3.7 | 5.0 |

1. Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy in the financial year ended 30 June 2007.

   Results for 2007 and 2008 have been further adjusted based upon the Group's change in accounting policy.

   As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.

### End of Remuneration Report

*DIRECTORS' REPORT (Continued)*

## DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

| | Directors' Meeting | Audit Committee | Nominations and Remuneration Committee |
|---|---|---|---|
| **Number of meetings held:** | | | |
| **Number of meetings attended:** | | | |
| T. A. Holmes | 13 | - | - |
| R. P. Salmon | 13 | 5 | 6 |
| R. N. Scott | 13 | 5 | 6 |
| B.R. Benari | 13 | 3 | 6 |
| A. Hall | 12 | 5 | 6 |

## COMMITTEE MEMBERSHIP

As at the date of this report, the company had an Audit Committee and a Nomination and Remuneration Committee.

Members acting on the committees of the Board during the year were:

*Audit*

R.N. Scott (Chairman)
R.P. Salmon
B.R. Benari
A.L. Hall

*Nomination and Remuneration Committee*

A.L. Hall (Chairman)
R.N. Scott
R.P. Salmon
B.R. Benari

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class order applies.

*DIRECTORS' REPORT (Continued)*

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the required declaration from the auditor of Homeloans Limited as to their compliance with auditor independence requirements of the Corporations Act. This declaration is shown on the next page and forms part of this report.

**Non-Audit Services**

The entity's auditor, Ernst & Young have not received any amount for the provision of non-audit services.

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Executive Chairman

Perth, 21 September 2010

ERNST & YOUNG

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## Auditor's independence declaration to the Directors of Homeloans Limited

In relation to our audit of the financial report of Homeloans Limited and its controlled entities for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
21 September 2010

TD:MJ:HLL:065

## CORPORATE GOVERNANCE STATEMENT

The Board of Homeloans Limited is committed to maintaining the highest standards of corporate governance. Corporate governance establishes the framework for how the Board oversees the Company and performs its functions on behalf of shareholders. The Board believes that good governance should be fully embedded in the Company's framework and culture. This statement reflects the Company's corporate governance system as at the date of this report.

This statement reports against the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" released in August 2007. As required by the ASX Listing Rules, this statement sets out the extent to which Homeloans Limited has followed the Principles or, where appropriate, indicates a departure from them with an explanation.

Due to the size of the Company's operations, the Board is of the belief that a number of the ASX's recommendations are not appropriate or in the best interest of shareholders. In these cases, the Board has elected not to follow the recommendations.

For further information on the corporate governance policies adopted by Homeloans Limited refer to our website: http://www.homeloans.com.au/.

## Principle 1 – Lay solid foundations for management and oversight

### The role of the Board and delegations

The Board has the responsibility and is accountable to shareholders for the management and control of the Company's business and affairs. The Board has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on the Company's website:

- oversee the conduct of the Company's business to evaluate whether the business is being properly managed and to ensure that it is conducted in an honest and ethical manner;
- ensure that adequate procedures are in place to identify the principal risks of the Company's business and delegate the implementation of appropriate systems to manage these risks to Board Committees and management;
- select, appoint, evaluate the performance of, determine the remuneration of, plan for the successor of, and removal of the Managing Director;
- ensure that adequate plans and procedures are in place for succession planning, including appointing, training and monitoring the performance of senior management;
- adopt a strategic planning process and review the Company's financial objectives and major corporate plans and actions; and
- perform other functions as prescribed by law, or assigned to the Board to maximise shareholder value.

The Board may establish Committees to assist in carrying out its responsibilities and to oversee the management of the Company. The Board Committees are discussed in Principle 2. The Board will also consider management recommendations with respect to various financial and operational matters.

### Management responsibility

The Board may delegate the above responsibilities to its committees, a director or any other person of authority to perform any of its functions and exercise any of its powers. Ultimate responsibility for the management and control of the Company is vested in the directors, who may then delegate their power to management. The Board has a Delegation of Authority schedule in place, which is reviewed regularly.

The Board has delegated to the Managing Director the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of the Company within the policies and delegation limits specified by the Board from time to time. The Managing Director may further delegate to senior management but remains accountable for all such delegated authority.

### Executive performance assessment

Senior executives participate in an annual performance review process which involves the establishment of performance objectives and measures, and the review of achievement. The process also involves assessment of remuneration tied to the company achieving its goals. For a full overview of the performance evaluation process for executives, please refer to the remuneration report which is contained within the Directors' Report. A review of executive performance was undertaken during the year in line with this process.

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and applicable budgets.

## Principle 2 – Structure the Board to add value

### Membership of the Board

The Board consists of directors with an appropriate mix of skill and experience, from different backgrounds, whom together provide the necessary breadth and depth of experience to meet the Board's roles and responsibilities.

The size of the Board is determined by the Company's constitution which specifies a minimum of 3 and a maximum of 7 directors. The table below summarises the current composition of the Board and the term in office held by each director at the date of this report. Background details of each director are set out in the Director's Report.

| Name | Position | Term in Office |
|---|---|---|
| T.A Holmes | Executive Chairman | 9yrs 11 months |
| R.P Salmon | Non – Executive Director | 9yrs 11 months |
| R.N Scott | Non – Executive Director | 9yrs 11 months |
| B.R Benari | Non – Executive Director | 3yrs 5 months |
| A.L Hall | Non – Executive Director | 1yrs 11 months |

The Executive Chairman is currently exercising the role of Managing Director and has done so since the previous Managing Director resigned on 30 September 2008. This appointment was made to ensure the Company maintained leadership and direction during what was then a very challenging period.

## Nomination and Appointment of New Directors

The Board's Nomination and Remuneration Committee has the responsibility for reviewing the membership of the Board on an annual basis to ensure the appropriate skill mix of the Board as a whole.

Procedure for the selection and appointment of new directors:

- The Nomination and Remuneration Committee identifies the required skills, experience, and other qualities required of new directors;
- Potential candidates are then interviewed by members of the Nomination and Remuneration Committee and a short list prepared;
- The Board meets to consider the potential candidates, which is followed by Board members having the opportunity to interview any prospective candidate; and
- An appointment is then made by the Board.

The Board is committed to ensuring that new directors are familiar with the Company's businesses. New directors are provided with an orientation and education program. Directors may undertake continuing education courses at the Company's expense, with the prior approval of the Chairman or the Board.

## Retirement and re-election of Directors

The Company's constitution specifies that one third of the Board, excluding the Managing Director, must retire from the office and stand for re-election at each Annual General Meeting. Further, each director, excluding the Managing Director, must stand for re-election every 3 years.

During the year, Mr A.L Hall and Mr R.N Scott retired from the Board and were re-elected at the 2009 annual general meeting.

## Succession Planning

The Board plans succession of its own members in conjunction with the Board Nomination and Remuneration Committee, taking into account the skill and experience of current board members and the Company's future direction and needs.

The Board retains overall responsibility for succession planning of the Managing Director, via the Nomination and Remuneration Committee. The Nomination and Remuneration Committee and the Managing Director are responsible for the succession planning of other senior executives.

## Review of Board performance

The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

## Director independence

An independent director is a non-executive director (i.e. is not a member of management) and:

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

It is the Board's view that Mr R.N. Scott is an independent non-executive director. In forming this view, the Board had regard to whether Mr Scott had any of the relationships noted above.

The Board does not consist of a majority of independent directors. The Board of Directors is of the opinion that the company is actually benefiting from having the Company's founders give of their experience in the industry and have a financial interest.

### Conflict of Interest

Directors are required to disclose private or other business interests and any other matters which may lead to potential or actual conflict of interest to the Board.

Director's dealings with the Company will always be at arm's length to avoid the possibility of actual and perceived conflict of interest.

Any director who has a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter. A 'material' interest would depend on the individual matter being considered, and whether it would be deemed to be material.

### Board Access to Information and Advice

All directors have access to any employees, company advisers, records and information they may require to carry out their duties. The Board also receives regular financial and operational reports from executive management.

Directors have the right to seek independent professional advice in connection with their duties and responsibilities at the company's expense, to help them carry out their responsibilities. Prior notification to the Chairman, or the Board's approval is required.

### Board Committees

There are currently two Board Committees whose powers and procedures are governed by the company's Constitution and the relevant Committee's charter – the Audit Committee and the Nomination and Remuneration Committee. Other Committees may be established from time to time to consider matters of special importance.

The Board uses its committees to support it in matters which require more intensive review. Each committee has a written charter, approved by the Board defining its duties, reporting procedures and authority. Minutes from all Committee meetings are tabled at Board meetings.

Copies of the Board Committee charters are available on the Company's website.

Details of Directors' membership of each Committee and their attendance at meetings throughout the period are set out in the Director's Report.

## Principle 3 – Promote ethical and responsible decision-making

### Code of Conduct

The Company has a Code of Conduct which applies to all directors, employees, contractors and consultants working within Homeloans Limited. The Code articulates the standards of honest, ethical and law-abiding behaviour expected by the Company. Employees are actively encouraged to bring any problems to the attention of management.
A copy of the Code can be found at the Company's website.

### Directors and Staff Trading Policy

Directors and staff are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Company, if they are in possession of insider information. The Board has approved the Policy for Dealing in Homeloans Limited Securities which prescribes the manner in which staff can trade in the Company's shares and the procedures to open and close trading windows. A summary of the policy is available on the Company's website.

The policy applies to all directors and staff and places restrictions and reporting requirements on staff, including limited trading in the shares of the Company to specific trading windows and in a specified manner.

## Principle 4 – Safeguard integrity in financial reporting

### Integrity of Homeloans financial reporting

The Board has the responsibility to ensure truthful and factual presentation of the Company's financial position. The Board has established an Audit Committee to assist the Board to focus on issues relevant to the integrity of the Company's financial reporting.

In accordance with its Charter, the Audit Committee must have at least three members and is chaired by an independent Director who is not Chair of the Board. Owing to the size of the Board and the fact that there is only one independent director, it is not possible for the majority of the Audit Committee to comprise of independent directors.

Details of the background of the Audit Committee members together with details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings are set out in the Director's Report.

The primary functions of the Audit Committee are to:

- evaluate the adequacy and effectiveness of the internal control system and implement a risk management framework;
- appoint, monitor and review the activities of the Company's external auditors;
- monitor the effectiveness and independence of the auditors;
- review and report to the board on the Company's annual and half-year financial statements, and its accounting policies and principles adopted;
- ensure adequate compliance controls; and
- review and recommend any appropriate amendments to corporate governance policies and framework.

A copy of the Audit Committee Charter is available on the Company's website.

### Declaration by the Chief Executive Officer and the Chief Financial Officer (or equivalent)

The CEO and CFO periodically provide formal assurance statements to the Board that:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

### Independent external audit

The Company requires its independent external audit to:

- provide stakeholders with assurance over the true and fair view of the financial reports; and
- ensure accounting practices comply with applicable accounting rules and policies.

The Company's independent external auditor is Ernst & Young (EY). External auditors are required to rotate the engagement partner assigned to the Company on a five year basis. Under this policy, the lead audit engagement partner assigned to the Company rotated at the conclusion of the 2007 financial reporting period. The Board has requested that EY attend the Company's annual general meeting, and that they be available to answer questions arising in relation to the conduct of their audit.

## Principle 5 – Make timely and balanced disclosure

### Continuous disclosure policy

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and objective manner.

The Company's "Communication Policy", which is available on the Company's website, is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Board has designated "Disclosure Officers" who comprise both directors and senior management. Disclosure Officers are responsible for: making decisions on what should be disclosed publicly; maintaining a watching brief on information; and ensuring disclosure is made in a timely and efficient manner.

## Principle 6 – Respect the rights of shareholders

The Company recognises the importance of enhancing its relationship with investors by: communicating effectively; providing ready access to clear and balanced information about the Company; and encouraging participation at Annual General Meetings. The Company publishes annual and half yearly reports, announcements, media releases and other relevant information on its website at www.homeloans.com.au. When distributing notices of Annual General Meetings to shareholders, the Company encourages shareholders to send in any questions they may wish to have answered prior to the meeting and are also encouraged to ask questions and make comments at the meeting.

## Principle 7 – Recognise and manage risk

### Risk management and compliance

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the Company's risk management framework.

The fundamental aim of the Company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders. The company recognises three main types of risk:

- Market risk – the risk of change in earnings from changes in market factors such as interest rates, housing market and economic conditions;
- Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events; and
- Liquidity risk – the risk of failure to adequately fund cash demand in the short term.

The business executives have accountability for the risks within their divisions with oversight, analysis, monitoring and reporting of these risks by an independent senior manager. The risk framework and policies are developed and approved by management and reviewed and approved by the Audit Committee. Senior management provide reporting to the Audit Committee on the effectiveness of management controls for material business risks.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPI's of both a financial and non-financial nature.

### Assurance

The CEO and CFO (or equivalent) periodically provide formal statements to the Board that in all material aspects:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

The Company's "Risk Management Policy" is available on the Company's website.

## Principle 8 – Remunerate fairly and responsibly

### The Board Remuneration Committee

The Board has established a Nomination and Remuneration Committee. This Committee's Charter, which is available on the Company's website, includes reviewing and recommending to the Board on:

- the remuneration and incentives of senior management in light of company goals and objectives;
- superannuation arrangements; and
- the remuneration framework for directors.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

## ASX Corporate Governance Council Best Practice Recommendations

Homeloans Limited complies with the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 2 August 2007 (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2010 and at the date of this report are outlined in the Corporate Governance Statement.

The following summary table lists each of the ASX Principles and the Homeloans Limited assessment of compliance with the principles.

| | ASX Principle | Compliance |
|---|---|---|
| **Principle 1:** | **Lay solid foundations for management and oversight**<br>Companies should establish and disclose the respective roles and responsibilities of board and management. | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Comply |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | Comply |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1. | Comply |
| **Principle 2:** | **Structure the board to add value**<br>Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. | |
| 2.1 | A majority of the board should be independent directors. | Not comply |
| 2.2 | The chair should be an independent director. | Not comply |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual. | Not comply |
| 2.4 | The board should establish a nomination committee. | Comply |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Comply |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2. | Comply |
| **Principle 3:** | **Promote ethical and responsible decision-making**<br>Companies should actively promote ethical and responsible decision-making. | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to:<br>• the practices necessary to maintain confidence in the Company's integrity<br>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Comply<br>Comply<br>Comply |
| 3.2 | Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. | Comply |
| 3.3 | Companies should provide the information indicated in the Guide to reporting on Principle 3. | Comply |

## ASX Corporate Governance Council Best Practice Recommendations (Continued)

| | ASX Principle | Compliance |
|---|---|---|
| **Principle 4:** | **Safeguard integrity in financial reporting**<br>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting. | |
| 4.1 | The board should establish an audit committee. | Comply |
| 4.2 | The audit committee should be structured so that it:<br>• consist only of non-executive directors<br>• consist of a majority of independent directors<br>• is chaired by an independent chair, who is not chair of the board<br>• has at least three members | <br>Comply<br>Not comply<br>Comply<br>Comply |
| 4.3 | The audit committee should have a formal charter. | Comply |
| 4.4 | Companies should provide the information indicated in the Guide to reporting on Principle 4. | Comply |
| **Principle 5:** | **Make timely and balanced disclosure**<br>Companies should promote timely and balanced disclosure of all material matters concerning the company. | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Comply |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5. | Comply |
| **Principle 6:** | **Respect the rights of shareholders**<br>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights. | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Comply |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6. | Comply |

## ASX Corporate Governance Council Best Practice Recommendations (Continued)

| | ASX Principle | Compliance |
|---|---|---|
| **Principle 7:** | **Recognise and manage risk**<br>Companies should establish a sound system of risk oversight and management and internal control. | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Comply |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks. | Comply |
| 7.3 | The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Comply |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7. | Comply |
| **Principle 8:** | **Remunerate fairly and responsibly**<br>Companies should ensure that the level and composition of remuneration is sufficient and responsible and that its relationship to performance is clear. | |
| 8.1 | The board should establish a remuneration committee. | Comply |
| 8.2 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Comply |
| 8.3 | Companies should provide the information indicated in the Guide to reporting on Principle 8. | Comply |

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

| | Note | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|---|
| | | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **ASSETS** | | | | | |
| Cash and cash equivalents | 8 | 57,592 | 73,851 | 41,340 | 47,168 |
| Receivables | 9 | 5,296 | 6,245 | 19,028 | 17,044 |
| Loans and advances to customers | 11 | 489,738 | 663,258 | - | - |
| Other financial assets | 12 | 34,393 | 34,023 | 23,450 | 22,344 |
| Investment in an associate | 10 | 289 | 220 | 235 | 166 |
| Plant and equipment | 13 | 1,011 | 1,185 | 1,011 | 1,185 |
| Investment in controlled entities | 14 | - | - | 8,391 | 8,391 |
| Goodwill | 15 | 12,565 | 12,565 | - | - |
| **TOTAL ASSETS** | | 600,884 | 791,347 | 93,455 | 96,298 |
| **LIABILITIES** | | | | | |
| Payables | 17 | 7,152 | 10,834 | 17,280 | 20,853 |
| Interest-bearing liabilities | 18 | 506,162 | 696,113 | 3,811 | 12,372 |
| Other financial liabilities | 19 | 13,238 | 14,146 | 6,325 | 7,095 |
| Derivative financial liabilities | 22 | 427 | 1,060 | - | - |
| Lease incentives | 20 | 258 | 340 | 258 | 340 |
| Deferred income tax liabilities | 5 | 3,784 | 3,399 | 1,961 | 1,431 |
| Provisions | 21 | 640 | 365 | 640 | 340 |
| **TOTAL LIABILITIES** | | 531,661 | 726,257 | 30,275 | 42,431 |
| **NET ASSETS** | | 69,223 | 65,090 | 63,180 | 53,867 |
| **EQUITY** | | | | | |
| Issued capital | 23 | 98,283 | 97,337 | 98,283 | 97,337 |
| Reserves | 23 | 816 | 816 | 816 | 816 |
| Accumulated losses | 23 | (29,876) | (33,063) | (35,919) | (44,286) |
| **TOTAL EQUITY** | | 69,223 | 65,090 | 63,180 | 53,867 |

The statement of financial position is to be read in conjunction with the accompanying notes.

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

| | Note | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|---|
| | | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Interest income | 4(a) | 46,691 | 72,695 | 4,477 | 5,353 |
| Interest expense | 4(d) | (31,022) | (53,026) | (1,249) | (1,952) |
| **Net interest income** | | 15,669 | 19,669 | 3,228 | 3,401 |
| Fees and commission income | 4(b) | 29,723 | 26,821 | 20,308 | 15,737 |
| Fees and commission expense | 4(e) | (15,109) | (16,101) | (10,198) | (10,224) |
| Other operating income | | 922 | 966 | 19,405 | 11,075 |
| General administrative expenses | | (6,785) | (7,764) | (6,671) | (7,260) |
| Employee benefits | 4(g) | (10,381) | (9,155) | (10,360) | (8,489) |
| Other operating expenses | 4(h) | (139) | (169) | (62) | (91) |
| Share of profit of associate | | 196 | 199 | 196 | 199 |
| Impairment loss | 4(i) | (874) | (5,993) | - | (3,551) |
| Gain on loans and advances recognised at amortised cost | 4(k) | 861 | 3,095 | - | - |
| **Profit before income tax** | | 14,083 | 11,568 | 15,846 | 797 |
| Income tax (expense)/benefit | 5 | (1,830) | (4,402) | 1,587 | (1,325) |
| Net profit/(loss) after tax for the year | | 12,253 | 7,166 | 17,433 | (528) |
| Total comprehensive income/(loss) for the year attributable to members of Homeloans Limited | | 12,253 | 7,166 | 17,433 | (528) |
| Basic earnings per share (cents per share) | 6 | 12.21 | 7.20 | | |
| Diluted earnings per share (cents per share) | 6 | 12.18 | 7.20 | | |
| Fully franked interim dividend (cents per share) | 7 | 3.5 | 1.5 | | |
| Proposed fully franked final dividend (cents per share) | 7 | 3.5 | 5.5 | | |

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

| | Issued Capital $'000 | Accumulated Losses $'000 | Employee Option Reserve $'000 | Total $'000 |
|---|---|---|---|---|
| **CONSOLIDATED** | | | | |
| **At 1 July 2008** | 97,981 | (38,740) | 774 | 60,015 |
| Profit for the year | - | 7,166 | - | 7,166 |
| Total comprehensive income | - | 7,166 | - | 7,166 |
| Share buyback | (644) | - | - | (644) |
| Share-based payment | - | - | 42 | 42 |
| Equity dividends | - | (1,489) | - | (1,489) |
| **At 1 July 2009** | 97,337 | (33,063) | 816 | 65,090 |
| Profit for the year | - | 12,253 | - | 12,253 |
| Total comprehensive income | - | 12,253 | - | 12,253 |
| Exercise of options | 983 | - | - | 983 |
| Share buyback | (29) | - | - | (29) |
| Share-issuance costs | (8) | - | - | (8) |
| Equity dividends | - | (9,066) | - | (9,066) |
| **At 30 June 2010** | 98,283 | (29,876) | 816 | 69,223 |

The statement of changes in equity is to be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010 (CONTINUED)

| | Issued Capital $'000 | Accumulated Losses $'000 | Employee Option Reserve $'000 | Total $'000 |
|---|---|---|---|---|
| **PARENT** | | | | |
| **At 1 July 2008** | 97,981 | (42,269) | 774 | 56,486 |
| Loss for the year | - | (528) | - | (528) |
| Total comprehensive income | - | (528) | - | (528) |
| Share buyback | (644) | - | - | (644) |
| Share-based payment | - | - | 42 | 42 |
| Equity dividends | - | (1,489) | - | (1,489) |
| **At 1 July 2009** | 97,337 | (44,286) | 816 | 53,867 |
| Profit for the year | - | 17,433 | - | 17,433 |
| Total comprehensive income | - | 17,433 | - | 17,433 |
| Exercise of options | 983 | - | - | 983 |
| Share buyback | (29) | - | - | (29) |
| Share-issuance costs | (8) | - | - | (8) |
| Equity dividends | - | (9,066) | - | (9,066) |
| **At 30 June 2010** | 98,283 | (35,919) | 816 | 63,180 |

The statement of changes in equity is to be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

| | | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|---|
| | Note | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Cash flows from operating activities** | | | | | |
| Interest received | | 47,046 | 74,944 | 4,477 | 5,353 |
| Interest paid | | (31,977) | (52,096) | (1,247) | (1,940) |
| Loan fees and other income | | 31,307 | 33,831 | 40,492 | 37,271 |
| Salaries and other expenses | | (32,189) | (33,697) | (27,026) | (28,189) |
| (Repayments of)/proceeds from warehouse facility (i) | | (125,990) | (132,929) | - | - |
| (Repayments to)/proceeds from bondholders (i) | | (52,971) | (131,263) | - | - |
| Repayments from/Net loans (advanced) from borrowers (i) | | 173,479 | 257,345 | - | - |
| Income taxes paid | | (5,634) | (1,139) | (5,634) | (1,139) |
| **Net cash flows from operating activities** | 8 | 3,071 | 14,996 | 11,062 | 11,356 |
| **Cash flows from investing activities** | | | | | |
| Purchase of plant and equipment | | (208) | (96) | (208) | (96) |
| Loan to associate | | - | 18 | - | - |
| Repayments of loan by related party | | - | - | - | - |
| **Net cash flows used in investing activities** | | (208) | (78) | (208) | (96) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | 983 | - | 983 | - |
| Share buy back program | | (29) | (644) | (29) | (644) |
| Share issuance costs | | (8) | - | (8) | - |
| Proceeds from borrowings | | 1,768 | 3,057 | 1,768 | 3,057 |
| Repayment of borrowings | | (12,770) | (14,591) | (10,330) | (9,418) |
| Payment of dividends | 7 | (9,066) | (1,489) | (9,066) | (1,489) |
| **Net cash flows used in financing activities** | | (19,122) | (13,667) | (16,682) | (8,494) |
| Net (decrease)/increase in cash and cash equivalents | | (16,259) | 1,251 | (5,828) | 2,766 |
| Add: Opening cash and cash equivalents brought forward | | 73,851 | 72,600 | 47,168 | 44,402 |
| **Closing cash and cash equivalents** | 8 | 57,592 | 73,851 | 41,340 | 47,168 |

(i) – The cash flows of the Group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the Group's operating cash flows. These cash flows are not available for the use of shareholders. The RMT SPV's generated negative cashflows of $7,449,000 during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been $10,520,000.

## NOTE 1: CORPORATE INFORMATION

The financial report of Homeloans Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of directors on 21 September 2010.

Homeloans Limited is a company limited by shares incorporated and domiciled in Australia. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

The Company has adopted the ASIC Class Order 10/654, which allows companies presenting consolidated financial statements to also present parent entity financial statements.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following relevant new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving disclosures about financial instruments*
- AASB 8 *Operating Segments*
- AASB 101 *Presentation of Financial Statements (revised 2007)*
- AASB 123 *Borrowing Costs (revised 2007)*
- AASB 2008-1 *Amendments to Australian Accounting Standard [AASB 2] – Share-based Payment: Vesting Conditions and Cancellations*
- *AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]*
- AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-6 *Amendments to Australian Accounting Standards*
- AASB 3 *Business Combinations (revised 2008)*
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements of the Group, its impact is described below:

#### AASB 2009-2 Amendments to Australian Accounting Standards – Improving disclosures about financial instruments

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The change does not significantly affect the financial statements.

#### AASB 8 Operating Segments

AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 3, including the related revised comparative information.

#### AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 July 2009. The Group did not capitalise any borrowing costs in the current year.

### AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

### AASB 3 Business Combinations (revised 2008)

The revised standard introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

### Annual Improvements Project

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- AASB 123 *Borrowing Costs:* the definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one - the interest expense calculated using the effective interest rate method calculated in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.* The Group has amended its accounting policy accordingly which did not result in any change in its statement of financial position.
- AASB 128 *Investment in Associates:* an investment in an associate is a single asset for the purpose of conducting the impairment test, including any reversal of impairment. Any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases. The Group has amended its impairment accounting policy accordingly. The amendment had no impact on the Group's financial position or performance.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following new and amended standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

| Reference | Title | Summary | Application date of standard | Application date for Group |
|---|---|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:<br><br>The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.<br><br>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.<br><br>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.<br><br>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:<br><br>➤ has primary responsibility for providing the goods or service;<br>➤ has inventory risk;<br>➤ has discretion in establishing prices;<br>➤ bears the credit risk.<br><br>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in AASB 8 before aggregation for reporting purposes.<br><br>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.<br><br>The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges. | 1 January 2010 | 1 July 2010 |

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Reference | Title | Summary | Application date of standard | Application date for Group |
|---|---|---|---|---|
| AASB 2009-8 | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] | This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions.*<br><br>The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.<br><br>The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. | 1 January 2010 | 1 July 2010 |
| AASB 9 and AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] | The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:<br><br>➤ two categories for financial assets being amortised cost or fair value<br><br>➤ removal of the requirement to separate embedded derivatives in financial assets<br><br>➤ strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows<br><br>➤ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition<br><br>➤ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes<br><br>➤ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income | 1 January 2013 | 1 July 2013 |

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| Reference | Title | Summary |
|---|---|---|
| AASB 124 (revised) | Related Party Disclosures (December 2009) | The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:<br><br>(a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;<br><br>(b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and<br><br>(c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.<br><br>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. |
| AASB 2009-12 | Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] | This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.<br><br>In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. |
| AASB 2010-3 and AASB 2010-4 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] | Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.<br><br>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.<br><br>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions<br><br>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. |
| Interpretation 19 | Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments | This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.<br><br>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. |

Management has not determined the impact of the above new and amended accounting standards.

## (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Homeloans Limited and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-consolidated transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

## (d) Business combinations

*Business combinations (pre 1 July 2009)*

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.
The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

*Business combinations (post 1 July 2009)*

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

## (e) Investment in associate

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated Statement of Comprehensive Income reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in other comprehensive income.

### (f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expenses and reduction of liability.

*Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or estimated useful lives of the improvements, whichever is the shorter.

### (g) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### (h) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis. A summary of the policies applied to the Group's intangible assets is as follows:

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)

### (i) Share-based payment transactions

The Group provides benefits to employees (including directors) and to business partners of the Group in the form of share-based payment transactions, whereby the recipients render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Scheme in place which provides benefits to employees.

The cost of these equity-settled transactions with employees and business partners is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the use of a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the share of Homeloans Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and

(ii) the number of awards that, in the opinion of the directors of the consolidated, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

At balance date the Group did not have on issue any options attaching market based performance conditions.

### (j) Revenue recognition

Revenue is recognised and measured at the amount received or receivable to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

<u>Origination and loan management business - Managed Loans</u>

- Application fee revenue received in respect of loans is recognised when the service has been provided.

- Origination commissions are recognised as revenue once the origination of the loan has been completed.

- The group also receives trailing commissions from lenders on loans originated by Homeloans on behalf of those lenders. The trailing commissions are received over the life of the loans based on the loan book balance outstanding. The group also makes trailing commission payments to brokers and commissioned staff based on the loan book balance outstanding.

  Upon settling loans, the fair value of the future trailing commission revenue is recognised. This represents the expected future trailing commissions receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees, discounted to their net present value. The trailing commission revenue is recognised upon settlement as the services to earn that revenue are principally performed upfront by Homeloans. In addition, the fair value of the trailing commission expense is also recognised. This represents the expected future trailing commissions payable to brokers and commissioned staff discounted to their net present value.

- Homeloans receives additional and separate fees for transactional services performed over the life of the loan. This fee revenue is recognised as the services are being provided.

<u>Origination of Non-managed Loans</u>

- The group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the Group is entitled to without having to per form further services. The group makes trailing commission payments to brokers and commission staff based on the loan book balance outstanding.

  Upon settling loans (for the reasons noted above), the fair value of the future trailing commission revenue is recognised. This represents the expected future trailing commissions receivable discounted to their net present value. The fair value of the trailing commission expense to brokers and commissioned staff is also recognised, being the future trailing commissions payable discounted to their net present value.

Securitisation of mortgages

- Interest income from loans and advances operated by the Residential Mortgage Trusts is recognised as it accrues using the effective interest method.

## (k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

## (l) Cash and cash equivalents

Cash on hand and in banks and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.
For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## (m) Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable.

Future trailing commissions receivable represents the net present value of the expected future trailing income receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

Subsequent to initial recognition and measurement, the trailing commissions receivable are measured at amortised cost. The carrying amount of the trailing commissions receivable is adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the effective interest rates. The resulting adjustment is recognised as income or expense in the Statement of Comprehensive Income.

## (n) De-recognition of financial instruments

The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

The Group utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being controlled entities under AASB 127 – Consolidated and separate financial statements.
These transactions do not meet the criteria under AASB 139 - Financial Instruments: Recognition and Measurement with respect to the de-recognition of financial instruments.

Accordingly, the value of the securitised loans has been recorded in the Statement of Financial Position with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

## (o) Recoverable amount of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

## (p) Costs of establishing a SPV

The initial set up costs of an SPV to issue residential mortgage backed securities ("RMBS") form part of transaction costs on the bond issued. These costs comprise legal fees and ratings agency fees.

## (q) Recoverable amount of financial assets

The Group assesses at each balance date whether a financial asset or group of financial assets is impaired.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective rate determined under the contract. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### (r) Loans and advances

All loans and advances are initially recognised at fair value plus directly attributable transaction costs.

Loans and advances are subsequently measured at amortised cost using the effective interest method.

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

Gains and losses are recognised in income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

The Group assesses at each balance date whether there is any objective evidence of impairment. This assessment is undertaken on each loan that is greater than 90 days past due and considers the level of expected future cashflows compared to the carrying amount of each loan.

If there is objective evidence that an impairment loss on loans and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original effective interest rate.

The Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against loans and advances.

Individually significant provisions are assessed as the difference between an asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

All other loans and receivables that do not have an individually assessed provision are assessed collectively for impairment.

Collective provisions are maintained to reduce the carrying amount of the portfolios of similar loans and receivables to their estimated recoverable amounts at the Statement of Financial Position date.

The expected future cash flows for portfolios of assets with similar risk characteristics are estimated on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the loss experience is based and to remove the effects of conditions in the period that do not currently exist. Increases or decreases in the provision amount are recognised in the Statement of Comprehensive Income.

All RMT loans are covered by Lenders Mortgage Insurance.

### (s) Plant and equipment

*Cost and valuation*

Items of plant and equipment are measured at cost less accumulated depreciation and any impairment in value.

*Depreciation*

Depreciation is provided on a straight-line basis on all plant and equipment over the estimated useful life of the asset as follows:

Plant and equipment – over 5 to 15 years.

*Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of a fair value less costs to sell 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the period the item is derecognised.

### (t) Trade and other payables

Trade and other payables are carried at amortised cost due their short term nature and are not discounted.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Future trailing commission payable represents the net present value of the expected future trailing commission payable.

The trailing commission payable is measured at amortised cost. The carrying amount of the commission payable is adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rates. The resulting adjustment is recognised as income or expense in the Statement of Comprehensive Income.

### (u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method other than those which are measured at fair value through the profit and loss. Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains or losses are recognised in the statement of comprehensive income when the liabilities are derecognised and also as well as through the amortisation process.

### (v) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events and it is probable that a future sacrifice of economic benefits will be required and reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or be fore the reporting date.

### (w) Taxes

*Income tax*

Income tax on the Statement of Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused assets and unused tax losses can be utilised:

Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and
In respect of deductible temporary differences associated with investments in subsidiaries, and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

*Tax consolidation legislation*

Homeloans Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Homeloans Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

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

Asset or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in Note 5.

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.

### (x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the costs of acquisition of the asset or as part of the expense item as applicable; and

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (y) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets held for trading, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not held for trading, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Financial assets held for trading*

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

*Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the Statement of Financial Position date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

### (z) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. These derivatives are classified as held for trading. Any gains or losses arising from changes in fair value are taken directly to the Statement of Comprehensive Income.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

### (aa) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits due to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefits expenses and revenues arising in respect of the following categories:
wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

Employee incentive payments are paid and/or recognised as follows:

Executive staff – Incentive payments are recognised when there is a legal or constructive obligation at the balance sheet date and determined based on individual performance in relation to specific KPI's as well as performance of the company in relation to company wide targets and/or the budget. The Group recognises an expense when the incentive payment can be quantified with some certainty.

### (bb) Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, outstanding during the period, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for the after tax effect of:

- Costs of servicing equity (other than dividends);
- Dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (cc) Issued Capital

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.

### (dd) Significant accounting judgments, estimates and assumptions

### Significant accounting judgments

In the process of applying the group's accounting policies, management has made judgements involving estimations, which have had an impact on the amounts recognised in the financial statements.

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

*Consolidation of SPVs*

The Group has decided that the RMT SPVs meet the criteria of being controlled entities under AASB 127 – Consolidated and separate financial statements. The SPVs do not meet the criteria for de-recognition of financial instruments. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the Statement of Financial Position using the effective interest method with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

### Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

*Impairment of goodwill*

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 15.

*Impairment losses on loans and advances*

The Company reviews its loans and advances at each reporting date to assess whether an allowance should be recorded in the Statement of Comprehensive Income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

*Share-based payment transactions*

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial valuation model, based on assumptions in note 16.

*Future trailing commissions receivable and future trailing commissions payable.*

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the Group is entitled. The Group also makes trailing commission payments to introducers based on the loan book balance outstanding.

The fair value of trailing commissions receivable and the corresponding payable to introducers is determined by using the discounted cash flow valuation technique. These calculations require the use of assumptions. The key assumptions underlying the fair value calculation of trailing commissions receivable and the corresponding payable to introducers during the year include the prepayment rate and the discount rate. These assumptions are determined by management as follows:

| | Year ended 30 June 2010 | Year ended 30 June 2009 |
|---|---|---|
| Prepayment rate | Ranging from 16.80% to 56.10% depending on the age of the loans | Ranging from 16.80% to 56.10% depending on the age of the loans |
| Discount rate | 12.0% | 12.0% |

A remeasurement of all assets and liabilities using the discounted cash flow valuation technique occurs periodically, usually quarterly but must be completed at each reporting date.

There are a number of parameters that affect these calculations

- Loan balance
- Prepayment rate

Each of these parameters can change over time and therefore regular revaluations are required, incorporating up to date assumptions for these parameters, to reflect the true value of the discounted assets and liabilities.

### (ee) Comparatives

Certain comparative figures have been reclassified to conform with current year presentation and disclosure requirements.

## NOTE 3: OPERATING SEGMENTS

### Identification of reportable segments

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the Board of Directors (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board of Directors, in conjunction with management, based on the nature of the products and services provided, the nature in which they are organised and managed and the markets to which they serve.

### Types of products and services

*Origination and management*

The origination and management segment originates residential mortgages through external mortgage brokers, satellite offices and internal consultants. The funding for these mortgages is supplied by a pool of funders, with the origination and management segment continuing the ongoing management of the loans after they are processed and settled.

*Securitisation of mortgages*

The securitisation of mortgages segment is the Group's own funding source. Using a series of mortgage trusts, this segment packages groups of mortgages and sells the income stream via a securitised mortgage trust.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

*Corporate charges*

Corporate charges comprise those operating expenses which are managed and charged centrally. Corporate charges are allocated to each business segment on a proportionate basis linked to origination activity and loan portfolio balances so as to determine a segmental result.

The following item(s) are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance costs
- Income tax

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

| **Year ended 30 June 2010** | **Origination and Management** $'000 | **Securitisation of Mortgages** $'000 | **Total** $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest Income | 5,852 | 40,839 | 46,691 |
| Fee and commission income | 27,386 | 2,337 | 29,723 |
| Other operating income | 922 | - | 922 |
| Total segment revenue from external | 34,160 | 43,176 | 77,336 |
| Inter-segment revenue | 3,162 | - | 3,162 |
| Total segment revenue | 37,322 | 43,176 | 80,498 |
| Inter-segment elimination | | | (3,162) |
| Total consolidated revenue | | | 77,336 |
| **Result** | | | |
| Segment results before impairment loss | 4,429 | 10,096 | 14,525 |
| Impairment loss | - | (874) | (874) |
| Gain on loans and advances recognised at amortised cost | - | 861 | 861 |
| Profit before tax and finance costs | 4,429 | 10,083 | 14,512 |
| Finance costs | | | (429) |
| Profit before income tax | | | 14,083 |
| Income tax expense | | | (1,830) |
| Net profit for the year | | | 12,253 |
| **Assets and liabilities** | | | |
| Segment assets (i) | 101,503 | 499,381 | 600,884 |
| Total assets | | | 600,884 |
| Segment liabilities (i) | 21,660 | 504,509 | 526,169 |
| Unallocated liabilities (tax balances) | | | 5,492 |
| Total liabilities | | | 531,661 |
| **Other segment information** | | | |
| Capital expenditure | 208 | - | 208 |
| Depreciation | 382 | - | 382 |
| Other non-cash expenses: | 69 | - | 69 |
| Interest expense | 2,081 | 28,941 | 31,022 |

(i) The net assets for the Securitisation of Mortgages segment do not reflect the inherent value of the residential loan balances within the SPV's represented by future income streams, being net interest margin and fee income.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

| Year ended 30 June 2009 | Origination and Management $'000 | Securitisation of Mortgages $'000 | Total $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest Income | 7,005 | 65,690 | 72,695 |
| Fee and commission income | 22,037 | 4,784 | 26,821 |
| Other operating income | 966 | - | 966 |
| Total segment revenue from external | 30,008 | 70,474 | 100,482 |
| Inter-segment revenue | 6,144 | - | 6,144 |
| Total segment revenue | 36,152 | 70,474 | 106,626 |
| Inter-segment elimination | | | (6,144) |
| Total consolidated revenue | | | 100,482 |
| **Result** | | | |
| Segment results before impairment loss | 2,824 | 12,983 | 15,807 |
| Impairment loss | (3,348) | (2,645) | (5,993) |
| Gain on loans and advances recognised at amortised cost | - | 3,095 | 3,095 |
| Profit / (loss) before tax and finance costs | (524) | 13,433 | 12,909 |
| Finance costs | | | (1,341) |
| Profit / (loss) before income tax and minority interest | | | 11,568 |
| Income tax expense | | | (4,402) |
| Net profit for the year | | | 7,166 |
| **Assets and liabilities** | | | |
| Segment assets (i) | 98,812 | 692,535 | 791,347 |
| Total assets | | | 791,347 |
| Segment liabilities (i) | 30,286 | 686,675 | 716,961 |
| Unallocated liabilities (tax balances) | | | 9,296 |
| Total liabilities | | | 726,257 |
| **Other segment information** | | | |
| Capital expenditure | 96 | - | 96 |
| Depreciation | 416 | - | 416 |
| Other non-cash expenses: | 68 | - | 68 |
| Interest expense | 2,786 | 50,240 | 53,026 |

(i) The net assets for the Securitisation of Mortgages segment do not reflect the inherent value of the residential loan balances within the SPV's represented by future income streams, being net interest margin and fee income.

**Geographical Information**
The Group operates in Australia.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 4: REVENUES AND EXPENSES

| | | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|---|
| | **REVENUE** | | | | |
| **(a)** | **Interest income** | | | | |
| | Interest received – other person/ corporations | 46,691 | 72,695 | 4,477 | 5,353 |
| **(b)** | **Fee and commission income** | | | | |
| | Mortgage origination income | 9,794 | 8,254 | 6,751 | 4,563 |
| | Loan management fees | 19,929 | 18,567 | 13,557 | 11,174 |
| | | 29,723 | 26,821 | 20,308 | 15,737 |
| **(c)** | **Other operating income** | | | | |
| | Rental income | 761 | 815 | 736 | 783 |
| | Management Fees – Wholly owned controlled entities | - | - | 5,300 | 10,119 |
| | Dividend received from subsidiary | - | - | 13,200 | - |
| | Other | 161 | 151 | 169 | 173 |
| | | 922 | 966 | 19,405 | 11,075 |
| | | 77,336 | 100,482 | 44,190 | 32,165 |
| | **EXPENSES** | | | | |
| **(d)** | **Interest expense** | | | | |
| | Interest on bank loan | 217 | 1,080 | 187 | 718 |
| | Finance charges on leases | - | 8 | - | 8 |
| | Interest on other loans | 211 | 252 | 211 | 252 |
| | Interest recognised on trailer commission payable | 1,683 | 1,805 | 851 | 974 |
| | Interest payable to bondholders | 5,338 | 13,717 | - | - |
| | Interest payable to warehouse facility provider | 23,573 | 36,164 | - | - |
| | | 31,022 | 53,026 | 1,249 | 1,952 |
| **(e)** | **Fee and commission expense** | | | | |
| | Mortgage origination expense | 8,357 | 7,728 | 5,683 | 4,820 |
| | Loan management expense | 6,752 | 8,373 | 4,515 | 5,404 |
| | | 15,109 | 16,101 | 10,198 | 10,224 |
| **(f)** | **General administrative expenses** | | | | |
| **(i)** | **Depreciation consists of:** | | | | |
| | Depreciation and amortisation of: | | | | |
| | Plant and equipment | 382 | 416 | 382 | 371 |
| | | 382 | 416 | 382 | 371 |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

| | | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|---|
| | | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **(ii)** | **Rent:** | 1,960 | 1,966 | 1,929 | 1,790 |
| **(g)** | **Employee benefits** | | | | |
| | Wages & salaries | 8,037 | 7,967 | 7,840 | 7,328 |
| | Workers' compensation costs | 31 | 16 | 31 | 16 |
| | Annual leave provision | 92 | (65) | 92 | (39) |
| | Long service leave provision | 156 | 63 | 181 | 57 |
| | Share-based payments expense | - | 42 | - | 42 |
| | Employee incentive payments | 708 | (239) | 858 | (239) |
| | Payroll tax | 493 | 507 | 496 | 504 |
| | Other employee costs | 864 | 864 | 862 | 820 |
| | | 10,381 | 9,155 | 10,360 | 8,489 |
| **(h)** | Other operating expenses | 139 | 169 | 62 | 91 |
| **(i)** | Impairment – Goodwill [i] | - | 3,348 | - | - |
| | Impairment – investments in controlled entities [ii] | - | - | - | 3,551 |
| | Impairment – loans and advances [iii] | 874 | 2,645 | - | - |
| | | 874 | 5,993 | - | 3,551 |
| **(j)** | Gain/(loss) on derivative financial asset classified as held for trading | 634 | (1,447) | - | - |
| **(k)** | Gain on loans and advances recognised at amortised cost [iv] | 861 | 3,095 | - | - |

*i Impairment – Goodwill*

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments for impairment testing as follows:

- Origination and Management;
- Securitisation of Mortgages.

As a result of an improved operating environment and increased lending volumes, there has been no impairment of goodwill for the Origination and Management segment (2009:$3,348,000). The total amount of goodwill allocated to the Securitisation of Mortgages segment was written down to zero as at 30 June 2010.

*ii Impairment – investments in controlled entities*

Included in the Statement of Financial Position of the parent entity are investments in controlled entities. No write downs to these balances were made in the current period (2009:$3,551,000). Any write downs of investments in controlled entities are eliminated upon consolidation.

*iii Impairment – loans and advances*

An allowance for impairment is maintained against the mortgage loan receivables within the RMT Special Purpose Vehicles. The impairment loss recognised for the year of $874,000 (2009:$2,645,000) is measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries.

*iv Gain /(loss) on loans and advances recognised at amortised cost*

The gain of $861,000 (2009:$3,095,000) in loans and advances recognised at amortised cost reflects a re-estimation of cash flows to be generated from the loans within the RMT SPV's using the original effective interest rate.

## NOTE 5: INCOME TAX

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| The major components of income tax expense are: | | | | |
| **Statement of Comprehensive Income** | | | | |
| *Current income tax* | | | | |
| Current income tax charge | 3,807 | 6,055 | 245 | 1,239 |
| Adjustments in respect of current income tax of previous years | 96 | - | 96 | - |
| Benefits received from changes to the tax consolidation regime | (2,458) | - | (2,458) | - |
| *Deferred income tax* | | | | |
| Relating to origination and reversal of temporary differences | 385 | (1,653) | 530 | 86 |
| Income tax expenses/(credit) reported in the Statement of Comprehensive Income | 1,830 | 4,402 | (1,587) | 1,325 |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | | | |
| Accounting profit before income tax | 14,083 | 11,568 | 15,846 | 797 |
| At the Group's statutory income tax rate of 30% (2009: 30%) | 4,225 | 3,470 | 4,754 | 239 |
| Entertainment expenses | 9 | 11 | 7 | 8 |
| Share option expense | - | 13 | - | 13 |
| Impairment write down | - | 1,004 | - | 1,065 |
| Difference in prior year tax (paid during the year) | 96 | (75) | 96 | - |
| Other | (42) | (21) | (26) | - |
| Fully franked dividend received from subsidiary | - | - | (3,960) | - |
| Benefit received from changes to the tax consolidation regime | (2,458) | - | (2,458) | - |
| Income tax expense/(credit) reported in the consolidated Statement of Comprehensive Income | 1,830 | 4,402 | (1,587) | 1,325 |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

| | Statement of Financial Position | | Statement of Comprehensive Income | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Deferred tax income** | | | | |
| Deferred income tax at 30 June related to the following: | | | | |
| *CONSOLIDATED* | | | | |
| *Deferred tax liabilities* | | | | |
| Effective interest adjustments on loans and advances | (240) | (339) | (99) | 339 |
| Derivative instrument | - | - | - | (116) |
| Lease incentives | (13) | (27) | (14) | (13) |
| Prepayments | - | - | - | (8) |
| Leased assets | (13) | (106) | (93) | (92) |
| Accrued income | (68) | (65) | 3 | (145) |
| Trailing commissions receivable | (10,304) | (10,203) | 101 | (1,532) |
| Deferred income tax liabilities | (10,638) | (10,740) | | |
| *Deferred tax assets* | | | | |
| Losses available for offset against future taxable income | 742 | 991 | 249 | 403 |
| Accrued expenses | 600 | 439 | (161) | 209 |
| Effective interest adjustments on loans and advances | 52 | 67 | 15 | (67) |
| Allowance for impairment losses – loans and advances to customers | 951 | 864 | (87) | (864) |
| Derivative instrument | 128 | 318 | 190 | (318) |
| Lease incentives | 77 | 102 | 25 | 24 |
| Finance leases | - | - | - | 133 |
| Provisions | 297 | 226 | (71) | 29 |
| Capital items | 35 | 67 | 32 | 30 |
| Trailing commissions payable | 3,972 | 4,267 | 295 | 335 |
| Deferred income tax assets | 6,854 | 7,341 | | |
| Net deferred income tax liabilities | (3,784) | (3,399) | | |
| Deferred tax expense/(credit) | | | 385 | (1,653) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)

| | Statement of Financial Position 2010 $'000 | 2009 $'000 | Statement of Comprehensive Income 2010 $'000 | 2009 $'000 |
|---|---|---|---|---|
| PARENT | | | | |
| *Deferred tax liabilities* | | | | |
| NPV future trailing commissions receivable | (7,021) | (6,699) | 322 | (803) |
| Lease incentives | (13) | (27) | (14) | (13) |
| Prepayments | - | - | - | (8) |
| Leased assets | (13) | (106) | (93) | (92) |
| Accrued income | (68) | (65) | 3 | (101) |
| Deferred income tax liabilities | (7,115) | (6,897) | | |
| *Deferred tax assets* | | | | |
| Losses available for offset against future profits | 742 | 991 | 249 | 403 |
| NPV future trailing commissions payable | 1,898 | 2,152 | 254 | 282 |
| Accrued expenses | 594 | 428 | (166) | 208 |
| Lease incentives | 77 | 102 | 25 | 24 |
| Provisions | 1,808 | 1,726 | (82) | 23 |
| Capital items | 35 | 67 | 32 | 30 |
| Finance leases | - | - | - | 133 |
| Deferred income tax assets | 5,154 | 5,466 | | |
| Net deferred income tax liabilities | (1,961) | (1,431) | | |
| Deferred tax expense | | | 530 | 86 |

## Tax consolidation

Effective 1 July 2003, for the purposes of income taxation, Homeloans Limited and its 100% owned subsidiaries formed a tax consolidated group. The members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Homeloans Limited. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

## Tax effect accounting by members of the tax consolidated group

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is set out below.

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

### *Nature of the tax funding agreement*

Members of the Group have entered into a tax funding agreement. Under the funding agreement the allocation of tax within the Group is based on a group allocation. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call.

The allocation of taxes under the tax funding agreement is recognised as an increase or decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Homeloans Limited. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practical after the end of each financial year.

### *Tax consolidation contributions/distribution*

Homeloans has recognised the following amounts as tax consolidation adjustments:

| | CONSOLIDATED | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Total increase to tax payable to Homeloans Limited | 3,562 | 4,806 |
| Total increase to intercompany assets of Homeloans Limited | 3,562 | 4,806 |

## NOTE 6: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary options into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | CONSOLIDATED | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Net profit attributable to ordinary equity holders of the parent | 12,253 | 7,166 |
| Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS | 12,253 | 7,166 |
| Weighted average number of ordinary shares (excluding reserved shares) for basic and diluted earnings per share | 100,314,176 | 99,586,821 |
| *Effect of dilution:* Share options | 251,167 | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS | 100,565,343 | 99,586,821 |

There is an impact from 1,177,500 options outstanding at 30 June 2010 on the earnings per share calculation because they are dilutive for the current year.

During the period between the reporting date and the date of completion of the financial statements, 952,500 shares have been issued as a result of options being exercised. There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

## NOTE 7: DIVIDENDS PAID AND PROPOSED

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Declared and paid during the year: | | | | |
| Franked dividends: | | | | |
| Fully franked final dividend on ordinary shares for 2009 - 5.5 cents per share (2008 – nil cents) | 5,532 | - | 5,532 | - |
| Fully franked interim dividend on ordinary shares for 2010 – 3.5 cents per share (2009: 1.5 cents) | 3,534 | 1,489 | 3,534 | 1,489 |
| | 9,066 | 1,489 | 9,066 | 1,489 |
| Proposed and not recognised Dividends on ordinary shares: | | | | |
| Final franked dividend for 2010 – 3.5 cents (2009: 5.5 cents) | 3,534 | 5,532 | 3,534 | 5,532 |

### Franking credit balance

| | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|
| The amount of the franking credits available for the subsequent financial year are: | | |
| Franking account balance as at the end of the financial year at 30% (2009: 30%) | 2,390 | 620 |
| Franking credits that will arise from the payment of income tax payable as at the end of the financial year | 1,708 | 5,898 |
| Franking debits that will arise from the payment of dividends as at the end of the financial year | - | - |
| | 4,098 | 6,518 |
| The amount of franking credits available for future reporting periods: | | |
| Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period | (1,514) | (2,322) |
| | 2,584 | 4,196 |

The tax rate at which dividends have been franked is 30% (2009: 30%)

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 8: CASH AND EQUIVALENTS

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Reconciliation to Statement of Cash Flows** | | | | |
| For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June: | | | | |
| Cash at bank and in hand | 41,781 | 11,284 | 41,340 | 10,283 |
| Commercial Paper | - | 36,885 | - | 36,885 |
| RMT Cash Collections Account * | 12,938 | 19,349 | - | - |
| Restricted Cash ** | 2,873 | 6,333 | - | - |
| | 57,592 | 73,851 | 41,340 | 47,168 |

Cash at bank earns interest at floating rates based on daily bank deposit rates and has a term less than 3 months. The carrying amount of cash and cash equivalents represents fair value.

Commercial Paper represents paper purchased through Westpac Banking Corporation. There was no investment in commercial paper as at 30 June 2010 (2009: face value of $37,000,000).

* RMT cash collections account includes monies held in the RMT Special Purpose Vehicles (SPV's) on behalf of investors in those trusts and is not available to Homeloans Limited.

** Cash held in trust as collateral for the borrowing facilities with Westpac Banking Corporation.

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Reconciliation of net profit/(loss) after tax to net cash flows from operations** | | | | |
| Net profit/(loss) | 12,253 | 7,166 | 17,433 | (528) |
| Adjustments for: | | | | |
| Impairment loss | 874 | 5,993 | - | 3,551 |
| Depreciation | 382 | 416 | 382 | 371 |
| Amortisation of prepaid royalties & commissions | - | 26 | - | 26 |
| Share options expensed | - | 42 | - | 42 |
| Dividends received from associates | 69 | 44 | 69 | 44 |
| Share of profit in associate – net of tax | (138) | (139) | (138) | (139) |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in receivables | 39 | 2,117 | (2,748) | 1,686 |
| Decrease/(increase) in derivative financial liabilities/assets | (634) | 1,447 | - | - |
| Decrease in due to borrowers | 172,646 | 254,908 | - | - |
| Decrease in due to bondholders | (52,971) | (131,263) | - | - |
| Decrease in due to warehouse facility | (125,990) | (132,929) | - | - |
| Increase/(decrease) in deferred tax liabilities | 385 | (1,653) | 530 | 86 |
| Increase/decrease in current tax liability | (4,190) | 4,916 | (4,190) | 4,915 |
| Increase/(decrease) in trade and other payables | 71 | 4,087 | (576) | 1,490 |
| (Decrease)/increase in provisions | 275 | (182) | 300 | (188) |
| Net cash from operating activities | 3,071 | 14,996 | 11,062 | 11,356 |

### Disclosure of financial facillities

Refer to note 18.

### Disclosure of non-cash financing and investing activities

The only non-cash financing activities are share-based payments as discussed in note 16.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 9: RECEIVABLES

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Fees receivables | | | | |
| Non-related parties (i) | 2,173 | 2,249 | 1,516 | 1,414 |
| Related parties (ii) - wholly owned controlled entity | - | - | 16,957 | 15,167 |
| | 2,173 | 2,249 | 18,473 | 16,581 |
| Accrued interest (iii) | 1,506 | 1,685 | - | 15 |
| Prepayments (iv) | 721 | 865 | 457 | 356 |
| Last days collections receivable (v) | 805 | 1,332 | - | - |
| Other | 91 | 114 | 98 | 92 |
| | 5,296 | 6,245 | 19,028 | 17,044 |

Terms and conditions relating to the above financial instruments
(i) Fees receivable are non-interest-bearing and on settlement terms of between 4 to 60 days
(ii) Details of the terms and conditions of related party receivables are set out in note 26. No impairment was recognised in the current or prior financial year. The balance is considered fully collectible.
(iii) Accrued interest is due and payable within 30 days.
(iv) Prepayments are non-interest-bearing and due in the ordinary course of business between 30 days and 12 months.
(v) Last days collections receivable represents amounts received within the RMT SPV's on the last day of the reporting period and not cleared in the bank until the first day of the next financial period.

Except for the related party receivables, other balances are neither past due nor impaired. The amount is considered fully collectible. Refer to note 24 for fair value.

## NOTE 10: INVESTMENT IN ASSOCIATE

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Investment in National Mortgage Brokers Pty Limited (i) | 289 | 220 | 235 | 166 |
| | 289 | 220 | 235 | 166 |

(i) The Group has a 26.5% (2009:26.5%) interest in National Mortgage Brokers Pty Limited ("nMB"). nMB was incorporated in Australia and its principal activity is mortgage origination.

| | | | | |
|---|---|---|---|---|
| Carrying amount at the beginning of the year | 220 | 125 | 166 | 71 |
| Share of associates net profit after tax | 138 | 139 | 138 | 139 |
| Dividends received by the Group | (69) | (44) | (69) | (44) |
| Carrying amount at the end of the year | 289 | 220 | 235 | 166 |

## NOTE 11: LOANS AND ADVANCES TO CUSTOMERS

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Gross loans and advances to customers | 492,908 | 666,136 | - | - |
| Less: Allowance for impairment loss | (3,170) | (2,878) | - | - |
| | 489,738 | 663,258 | - | - |

Loans and advances to customers represent lending for residential mortgages at either fixed or floating rates. In the table below, calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions based on actual experience.

| Expected maturity analysis | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | PARENT 2010 $'000 | PARENT 2009 $'000 |
|---|---|---|---|---|
| Less than 1 year | 155,814 | 222,561 | - | - |
| 1 – 2 years | 105,981 | 148,133 | - | - |
| 2 – 3 years | 72,292 | 98,620 | - | - |
| 3 – 4 years | 49,444 | 65,673 | - | - |
| 4 - 5 years | 33,901 | 43,744 | - | - |
| >5 years | 75,476 | 87,405 | - | - |
| **Total** | **492,908** | **666,136** | - | - |

### Impairment allowance for loans and advances to customers

A reconciliation of the allowance account for impairment losses on loans and advances is as follows;

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Allowance for impairment loss - opening | 2,878 | 340 | - | - |
| New and increased impairment charges | 874 | 2,645 | - | - |
| Amounts written off | (582) | (107) | - | - |
| Allowance for impairment loss - closing | 3,170 | 2,878 | - | - |
| Collective allowance | 1,060 | 1,980 | - | - |
| Specific allowance | 2,110 | 898 | - | - |
| | 3,170 | 2,878 | - | - |

An allowance for impairment is maintained against the mortgage loan receivables within the RMT Special Purpose Vehicles. The allowance for impairment loss is measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

The following table provides analysis of loans past due but not considered impaired:

| **Loans past due but not impaired** | **CONSOLIDATED** | | **PARENT** | |
|---|---|---|---|---|
| | **2010 $'000** | **2009 $'000** | **2010 $'000** | **2009 $'000** |
| 0 - 1 month | 27,566 | 30,864 | - | - |
| 1 - 3 months | 9,041 | 7,677 | - | - |
| 3 - 6 months | 2,104 | 4,424 | - | - |
| > 6 months | 358 | 10,591 | - | - |
| **Total** | 39,069 | 53,556 | - | - |

Payment terms of these loans have not been re-negotiated however credit has been stopped until payment is made. The Company has been in direct contact with relevant borrowers. It should be noted that all RMT loans are secured by a first ranking mortgage over the residential property and are covered 100% by Lenders Mortgage Insurance (LMI). Expected recoverable amounts are adjusted to reflect lower than 100% LMI recovery due to operational risks and are also reduced by the amount of higher rate (penalty) interest and fees related to loans in arrears which are not covered by LMI.

The following table summarises loans past due and impaired. The impairment loss, which has been determined based on an individual assessment of impaired loans, represents the carrying amount of the loans net of the value of future cash flows, adjusted for insurance recoveries (referred to in the table as "Expected recoverable amount"). The assessment of expected future cash flows includes such considerations as the specific circumstances of the borrower, the realisable value of security and expected insurance recoveries.

| **Loans past due and impaired** | **CONSOLIDATED** | | **PARENT** | |
|---|---|---|---|---|
| | **2010 $'000** | **2009 $'000** | **2010 $'000** | **2009 $'000** |
| Carrying amount of impaired loans | 3,070 | 1,023 | - | - |
| Less: Expected recoverable amount | (960) | (125) | - | - |
| **Impairment loss** | 2,110 | 898 | - | - |

There were no restructured loans during the year. Refer to note 24 for fair value disclosure for loans and advances to customers.

## Collateral repossessed

As at 30 June 2010 the Group had 2 repossessed residential properties in possession being the security for RMT loans. The Group intends to sell these properties with the proceeds to go towards clearing the outstanding balance of the underlying RMT loans. The estimated value of the property is between $700,000 and $800,000.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 12: OTHER FINANCIAL ASSETS

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Future trailing commissions receivable (i) | | | | |
| - Current | 14,478 | 14,610 | 10,291 | 10,071 |
| - Non-current | 19,870 | 19,323 | 13,114 | 12,183 |
| | 34,348 | 33,933 | 23,405 | 22,254 |
| Other | 45 | 90 | 45 | 90 |
| | 34,393 | 34,023 | 23,450 | 22,344 |

Terms and conditions relating to the above financial instruments

(i) Fair value of future trailing commission receivable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing income receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees. Subsequent to initial recognition and measurement, the future trailing commission receivable is measured at amortised cost. Assumptions used in the assessment of the fair value are disclosed under note 2 (dd).

## NOTE 13: PLANT AND EQUIPMENT

| | CONSOLIDATED Plant and equipment $'000 | HOMELOANS LIMITED Plant and equipment $'000 |
|---|---|---|
| **Year ended 30 June 2010** | | |
| At 1 July 2009, net of accumulated depreciation and impairment | 1,185 | 1,185 |
| Additions | 208 | 208 |
| Depreciation charge for the year | (382) | (382) |
| At 30 June 2010, net of accumulated depreciation and impairment | 1,011 | 1,011 |
| **At 30 June 2010** | | |
| Cost | 6,040 | 6,040 |
| Accumulated depreciation and impairment | (5,029) | (5,029) |
| Net carrying amount | 1,011 | 1,011 |
| **Year ended 30 June 2009** | | |
| At 1 July 2008, net of accumulated depreciation and impairment | 1,506 | 1,461 |
| Additions | 95 | 95 |
| Depreciation charge for the year | (416) | (371) |
| At 30 June 2009, net of accumulated depreciation and impairment | 1,185 | 1,185 |
| **At 30 June 2009** | | |
| Cost | 5,832 | 5,832 |
| Accumulated depreciation and impairment | (4,647) | (4,647) |
| Net carrying amount | 1,185 | 1,185 |

The useful life of the assets was estimated as follows both for 2009 and 2010:

| | |
|---|---|
| Plant and equipment | 5 to 15 years |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 14: INVESTMENTS IN CONTROLLED ENTITIES

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | **2010 $'000** | **2009 $'000** | **2010 $'000** | **2009 $'000** |
| Investments at cost in controlled entities (Note 26) | - | - | 21,387 | 21,387 |
| Impairment allowance | - | - | (12,996) | (12,996) |
| | - | - | 8,391 | 8,391 |

## NOTE 15: GOODWILL

| | **CONSOLIDATED $'000** | **HOMELOANS LIMITED $'000** |
|---|---|---|
| **Year ended 30 June 2010** | | |
| At 1 July 2009, net of impairment | 12,565 | - |
| Less: Impairment loss | - | - |
| At 30 June 2010, net of impairment | 12,565 | - |
| **At 30 June 2010** | | |
| Cost (gross carrying amount) | 28,942 | - |
| Less: Impairment loss | (16,377) | - |
| Net carrying amount | 12,565 | - |
| **Year ended 30 June 2009** | | |
| At 1 July 2008, net of impairment | 15,913 | - |
| Less: Impairment loss | (3,348) | - |
| At 30 June 2009, net of impairment | 12,565 | - |
| **At 30 June 2009** | | |
| Cost (gross carrying amount) | 28,942 | - |
| Less: Impairment loss | (16,377) | - |
| Net carrying amount | 12,565 | - |

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Origination and Management
- Securitisation of Mortgages

## Origination and Management

The recoverable amount of the Origination and Management Cash Generating Unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets, approved by senior management covering a period of ten years. The ten year period has been used as it provides a better indication of business performance given the market in which the segment operates and is supported by historical mortgage market growth. The business' financial budgets and forecasts are also modeled from 10 year forecasts.

The assumed growth rate in settled loans over the period covered by the forecast is on average 6% (2009: 10%). The projected growth rate used reflects long term market averages as well as the business' projections of its own expected performance. Loan repayment rates range from 20% to 35% depending on types of loans and lenders (2009: 22% to 45%) and are based on actual experience. A terminal value of 8 times (2009: 8 times) was used for cash flows beyond 10 years reflecting industry averages.

The discount rate applied to cash flow projections is 12.5% (2009: 12.5%) and is based on average discount rates for comparable businesses in the industry.

## Securitisation of Mortgages

The total amount of goodwill allocated to the Securitisation of Mortgages Cash Generating Unit was written down to zero as at 30 June 2010.

## Carrying amount of goodwill allocated to each of the cash generating units

| | CONSOLIDATED | | | | | |
|---|---|---|---|---|---|---|
| | Origination and Management | | Securitisation of Mortgages | | Total | |
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Carrying amount of goodwill | 12,565 | 12,565 | - | - | 12,565 | 12,565 |

*Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2010 and 30 June 2009*

The following describes each key assumption other than those described above on which management has based its cash flow projections when determining the value in use of the Origination and Management CGU:

- Inflation – constant 3% per annum (2009: 3%) based on long-term expectations on inflation and is reviewed annually for changes in the market environment.
- Securitisation of Mortgages CGU pays to the Origination and Management CGU a management fee representing services provided by the latter to the Securitisation of Mortgages CGU. The management fee represents a portion of the total costs incurred by the Origination and Management CGU in undertaking certain relevant tasks and is calculated on a proportionate basis linked to origination activity and loan portfolio balances.
- A degree of reduction in the level of commission rates earned and paid as a result of market and competition driven influences.

## Sensitivity to changes in assumptions

## Origination and Management

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is considerably greater than its written down carrying value, management believes that reasonably possible changes in the key assumptions, such as a reduction in the average growth rate from 6% to 5% would not cause the recoverable amount of the unit to fall short of its carrying value.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 16: SHARE-BASED PAYMENT PLANS

### Employee Share Option Plan

An employee option plan exists where eligible employees of the Group, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently 16 members of this plan of whom 14 are current employees.

Information with respect to the number of options granted under the employee option scheme and options issued to directors, employees, and business partners are as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Outstanding at the beginning of the year | 3,697,500 | 0.46 | 6,022,500 | 0.43 |
| Granted during the year | - | - | - | - |
| Forfeited during the year | (12,500) | 0.35 | - | - |
| Cancelled during the year | - | - | (2,325,000) | 0.44 |
| Exercised during the year | (2,507,500) | 0.40 | - | - |
| Outstanding at the end of the year | 1,177,500 | 0.50 | 3,697,500 | 0.46 |
| Exercisable at the end of the year | 1,177,500 | 0.50 | 3,447,500 | 0.47 |

### Options held at the beginning of the reporting period:

The following table summarises information about options held by employees and other related parties as at 30 June 2009:

| Number of options | Grant date | Vesting date | Expiry date | Weighted average exercise price $ | Weighted average share price $^^ |
|---|---|---|---|---|---|
| 750,000 | 7 December 2004 | 7 December 2004 | 7 December 2009 | 0.40 | 0.35 |
| 237,500 | 14 January 2005 | 14 December 2006 | 14 December 2009 | 0.35 | 0.38 |
| 350,000 | 14 January 2005 | 14 December 2007 | 14 December 2009 | 0.35 | 0.38 |
| 220,000 | 14 October 2005 | 31 August 2006 | 31 August 2009 | 0.36 | 0.45 |
| 390,000 | 14 October 2005 | 31 August 2007 | 31 August 2010 | 0.46 | 0.45 |
| 200,000 | 20 February 2006 | 31 August 2006 | 31 August 2009 | 0.36 | 0.42 |
| 300,000 | 20 February 2006 | 31 August 2007 | 31 August 2010 | 0.46 | 0.42 |
| 250,000 | 7 April 2006 | 30 September 2006 [A] | 7 December 2009 | 0.36 | 0.40 |
| 250,000 | 7 April 2006 | 31 March 2007 [B] | 7 December 2009 | 0.46 | 0.40 |
| 250,000 | 7 April 2006 | 31 December 2007 [C] | 7 December 2009 | 0.51 | 0.40 |
| 250,000 | 15 February 2007 | 29 December 2008 | 29 December 2011 | 0.56 | 0.64 |
| 250,000 | 15 February 2007 | 29 December 2009 | 29 December 2011 | 0.56 | 0.64 |
| 3,697,500 | | | | 0.46 | 0.51 |

^^ Average share price on the date of grant.

A only exercisable if average mortgage settlements in any three (3) month prior period to 30 September 2006 exceeds $100 million per month
B only exercisable if average mortgage settlements in any three (3) month prior period to 31 March 2007 exceeds $112.5 million per month
C only exercisable if average mortgage settlements in any three (3) month prior period to 31 December 2007 exceeds $137.5 million per month

## Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2010 (2009:nil).

## Options exercised:

The following table summarises information about options exercised by option holders during the year:

| Date | Number of options | Range of exercise price $ | Weighted average share price at grant $ | Weighted average share price at exercise $ |
|---|---|---|---|---|
| 30 June 2010 | 2,507,500 | 0.35 - 0.56 | 0.39 | 0.68 |
| 30 June 2009 | - | - | - | - |

## Options held as at the end of the year:

The following table summarises information about options held by employees and other related parties as at 30 June 2010:

| Number of options | Grant date | Vesting date | Expiry date | Weighted average exercise price $ | Weighted average share price $^^ |
|---|---|---|---|---|---|
| 390,000 | 14 October 2005 | 31 August 2007 | 31 August 2010 | 0.46 | 0.45 |
| 300,000 | 20 February 2006 | 31 August 2007 | 31 August 2010 | 0.46 | 0.42 |
| 237,500 | 15 February 2007 | 29 December 2008 | 29 December 2011 | 0.56 | 0.64 |
| 250,000 | 15 February 2007 | 29 December 2009 | 29 December 2011 | 0.56 | 0.64 |
| 1,177,500 | | | | 0.50 | 0.52 |

^^ Average share price on the date of grant.

## NOTE 17: PAYABLES

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Trade payables (i) | 573 | 248 | 577 | 250 |
| Payable to related parties:<br>- controlled entity (ii) | - | - | 11,930 | 11,930 |
| Accrued commissions (iii) | 441 | 500 | 441 | 500 |
| Sundry creditors and accruals (iv) | 3,122 | 2,780 | 2,624 | 2,275 |
| Current income tax payable | 1,708 | 5,898 | 1,708 | 5,898 |
| Interest payable (v) | 1,308 | 1,408 | - | - |
| | 7,152 | 10,834 | 17,280 | 20,853 |

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.
(ii) Details of the terms and conditions of related party payables are set out in note 26.
(iii) Accrued commissions are non-interest bearing and are payable between 30 and 90 days.
(iv) Sundry creditors and accruals are non-interest bearing and are normally settled on 30 day terms.
(v) Interest payable is non-interest bearing and is payable within 30 days.

Refer to note 24 for fair value disclosure

## NOTE 18: INTEREST-BEARING LIABILITIES

| | Maturity | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|---|
| **Bank loans** | | | | | |
| Bank Overdraft (i) | | - | - | - | - |
| Secured bank loans (ii) | | - | 8,429 | - | 8,429 |
| Net interest margin (iii) | | - | 2,423 | - | - |
| Warehouse facility (iv) | 30/06/2011 | 390,753 | 516,742 | - | - |
| **Non-bank loans** | | | | | |
| Bonds (v) | 2035 - 2040 | 111,591 | 164,561 | - | - |
| Loans from funders (vi) | 2010 - 2015 | 3,818 | 3,958 | 3,811 | 3,943 |
| | | 506,162 | 696,113 | 3,811 | 12,372 |

Terms and conditions relating to the above financial instruments:

(i) The Company has a bank overdraft which is not utilised at year end. The bank overdraft is repayable on demand. Interest is charged at the bank's floating rate. The overdraft is secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities.

(ii) Secured bank loans incur interest at the bank bill rate plus a margin. The bank loans are secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities. Interest is recognised at an effective rate of 4.71% (2009: 6.08%). The facility has been fully repaid as at 30 June 2010.

(iii) The net interest margin facility incurs interest at the bank bill rate plus a margin. The facility, which is provided by Westpac Banking Corporation ("WBC"), is secured by specified cash flows from the assets of the Residential Mortgage Trusts and is guaranteed by the Company. Interest is recognised at an effective rate 4.78% (2009: 6.96%). This facility is no longer utilised and has been repaid in full as at 30 June 2010.

(iv) The warehouse facility incurs interest at the bank bill rate plus a margin. The facility is secured by the assets of the warehouse trust. Interest is recognised at an effective rate 5.39% (2009: 5.86%). All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurers must be rated at least A+ by Standard & Poor's and A1 by Moody's (see below regarding amended terms for warehouse extension). The RMT Warehouse facility is a rolling 12 month facility provided by WBC. WBC also act as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT trusts. FAI First Mortgage Pty Ltd ("FAIFM") is the Trust Manager and Servicer to all RMT trusts. FAIFM outsource these services to Bendigo and Adelaide Bank Limited who, in their capacity as Trust Manager and Servicer, are rated "Strong" by Standard and Poor's. Perpetual Trustees Limited is the Trustee to all RMT trusts.

The RMT warehouse has been extended for a further 12 months to 30 June 2011. The terms of the extension, which is effective 1 July 2010, includes a reduction in the funding margin payable to the warehouse provider and a reduction in the warehouse limit to $400,000,000 (previous limit during the financial year was $500,000,000 and the limit as at 30 June 2009 was $750,000,000). The extension also included the establishment of a single cash collateral reserve account to replace the three (3) existing cash reserves. The amount required to be held in the new cash collateral reserve account is determined as the greater of: 50% of the balance of loans greater than 30 days past due over and above a threshold of 3.00%; and a floor of 0.70% of the total balance of loans in the Warehouse.

The warehouse terms continue to require the long term rating of the mortgage insurers in respect of the loans in the warehouse to be at least A+ by Standard & Poor's and A1 by Moody's. In the event the ratings are downgraded below these levels, Homeloans has a reasonable period of time to agree a satisfactory arrangement with the warehouse provider.

(v) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. Interest is recognised at an effective rate 4.04% (2009: 5.07%).

(vi) Some of the funders used by the company and its controlled entities provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then paid back via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The company recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 5.43% (2009: 5.84%)

*Fair value disclosures*

Details of the fair value of the Group's interest bearing liabilities are set out in note 24.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 *(Continued)*

### *Financing facilities available*

At reporting date, the following financing facilities had been negotiated and were available:

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Total Facilities | | | | |
| - bank overdraft | 900 | 900 | 900 | 900 |
| - cash advance and net interest margin facilities | - | 10,852 | - | 8,429 |
| - RMT warehouse facility (refer note 18 (iv)) | 400,000 | 750,000 | - | - |
| | 400,900 | 761,752 | 900 | 9,329 |
| Facilities used at reporting date | | | | |
| - bank overdraft | - | - | - | - |
| - cash advance and net interest margin facilities | - | 10,852 | - | 8,429 |
| - RMT warehouse facility (refer note 18 (iv)) | 390,753 | 516,742 | - | - |
| | 390,753 | 527,594 | - | 8,429 |
| Facilities unused at reporting date | | | | |
| - bank overdraft | 900 | 900 | 900 | 900 |
| - cash advance and net interest margin facilities | - | - | - | - |
| - RMT warehouse facility (refer note 18 (iv)) | 9,247 | 233,258 | - | - |
| | 10,147 | 234,158 | 900 | 900 |

### *Assets pledged as security*

The carrying amounts of assets pledged as security for interest bearing liabilities are:

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| *First mortgage* | | | | |
| Plant and equipment | - | 1,185 | - | 1,185 |
| Loans and advances to customers | 492,279 | 663,258 | - | - |
| *Floating charge* | | | | |
| Cash assets | 15,811 | 73,851 | - | 47,168 |
| Receivables | 2,296 | 6,245 | - | 17,044 |
| Investment in associate | - | 220 | - | 166 |
| Other financial assets | - | 34,023 | - | 22,344 |
| Total assets pledged as security | 510,386 | 778,782 | - | 87,907 |

## NOTE 19: OTHER FINANCIAL LIABILITIES

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Future trailing commissions payable (i) | 13,238 | 14,146 | 6,325 | 7,095 |
| | 13,238 | 14,146 | 6,325 | 7,095 |

Terms and conditions relating to the above financial instruments:

(i) The fair value of future trailing commission payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing commissions payable to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trailing commission payable is measured at amortised cost.

Refer to note 24 for fair value disclosure

## NOTE 20: LEASE INCENTIVES

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Lease incentives | 258 | 340 | 258 | 340 |

Terms and conditions relating to the lease incentive

(i) Net rental incentives were received or are receivable in the form of an upfront cash incentive and rent-free periods by the Group for entering into a non-cancellable operating lease for premises occupied by the parent entity. This was entered into in September 2003 in respect of the Head Office of the parent entity.

The lease term for the Head office premises is 10 years. The value of these incentives has been deferred and amortised against occupancy costs over the lease term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)

## NOTE 21: PROVISIONS

| | Restructuring Provision $'000 | Provision for Employee benefits $'000 | Total $'000 |
|---|---|---|---|
| *CONSOLIDATED* | | | |
| **At 1 July 2009** | 115 | 250 | 365 |
| Arising during the year | | | |
| - Long Service Leave | - | 156 | 156 |
| - Restructuring Provision [1] | 119 | - | 119 |
| **At 30 June 2010** | 234 | 406 | 640 |
| *PARENT* | | | |
| **At 1 July 2009** | 115 | 225 | 340 |
| Arising during the year | | | |
| - Long Service Leave | - | 181 | 181 |
| - Restructuring Provision [1] | 119 | - | 119 |
| **At 30 June 2010** | 234 | 406 | 640 |

[1] Restructuring Provision includes provisions for corporate entity restructuring and employee termination benefits. The restructuring is expected to be completed within the next year.

## NOTE 22: DERIVATIVE FINANCIAL LIABILITY

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Derivative financial liability classified as held for trading (i) | 427 | 1,060 | - | - |

(i) The Group uses interest rate swaps for interest risk management purposes. Some of the loans and advances have fixed interest rates. In order to protect against rising interest rates, the Group has entered into fixed interest swap contracts under which it has right to receive interest at a variable rate and to pay interest at fixed rates. The swaps are used as an effective alternative to physical assets in order to achieve a desired level of total exposure and as a means to manage interest rate risk.

The derivative financial liabilities are the only financial instruments carried at fair value and are classified as level 2 in the fair value hierarchy. There were no transfers between Level 1 and Level 2 during the year.

The table below sets out the effective exposure values of the derivatives underlying assets, which provides an indication of the Group's exposure to derivatives. The fair value of ($427,000) (2009: ($1,060,000)) gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives as that is dependent upon the applicable market interest rate at the time of settlement.

| Notional principal Amount | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | PARENT 2010 $'000 | PARENT 2009 $'000 |
|---|---|---|---|---|
| Less than 1 year | 4,716 | 4,681 | - | - |
| 1 – 2 years | 3,350 | 5,767 | - | - |
| 2 – 3 years | 5,710 | 3,172 | - | - |
| 3 – 4 years | 282 | 7,070 | - | - |
| 4 - 5 years | 356 | 282 | - | - |
| **Total** | **14,414** | **20,972** | - | - |

The Group does not apply hedge accounting. All derivatives are designated as financial instruments – held for trading. Total income recognised from the movement in fair value for the financial year is $633,960 (2009: expense of $1,447,343).

Refer to note 24 for fair value disclosure.

## NOTE 23: ISSUED CAPITAL AND RESERVES

| | CONSOLIDATED 2010 $'000 | CONSOLIDATED 2009 $'000 | HOMELOANS LIMITED 2010 $'000 | HOMELOANS LIMITED 2009 $'000 |
|---|---|---|---|---|
| Ordinary shares issued and fully paid | 98,283 | 97,337 | 98,283 | 97,337 |
| | 98,283 | 97,337 | 98,283 | 97,337 |

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

### Terms and conditions of issued capital

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | No of shares | $'000 | No of shares | $'000 |
| *Movement in ordinary shares on issue* | | | | |
| **At 30 June 2009** | 98,505 | 97,337 | 98,505 | 97,337 |
| Issued during the year | 2,506 | 983 | 2,506 | 983 |
| Share buy back program (i) | (49) | (29) | (49) | (29) |
| Share issuance costs | - | (8) | - | (8) |
| **At 30 June 2010** | 100,962 | 98,283 | 100,962 | 98,283 |

(i) 49,281 shares were bought back during the year under the existing share buy back program.

### *Share options*

There were no options over ordinary shares granted during the financial year (2009: Nil). At the end of the year there were 1,177,500 unissued ordinary shares in respect of which options were outstanding (2009: 3,697,000 options). For more information refer to Note 16.

### *Capital Management Plan*

The Group's capital comprises share capital, reserves less accumulated losses amounting to $69,223,000 at 30 June 2010 (2009: $65,090,000). The primary objectives of the Group's capital management are to ensure that the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest costs of capital available to the Group.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities. During the year the Company bought back 49,281 shares under its current Share Buy Back Program for a total consideration of $28,734. The program, which is continually reviewed by the Board, is part of the long term capital management strategy aimed at maximising shareholder value.

The Group also reports regularly on its performance against various measures that are stipulated in loan covenants. One of these measures is around the level of gearing. The Group complied with all loan covenants during the financial year.

The Company is also subject to an externally imposed capital requirement by the Australian Securities & Investments Commission (ASIC).
In accordance with Condition 5 of the Company's Australian Financial Services Licence, it must (a) be able to pay all its debts as and when they become due and payable; (b) have total assets that exceed total liabilities; (c) have no reason to suspect that its total assets would not exceed its total liabilities; and (d) demonstrate, based on cashflow projections, that it will have access to sufficient financial resources to meet its short term liabilities. The Company complied with this requirement for both the year ended 30 June 2010 and the year ended 30 June 2009.

Subsequent to balance date, the Company announced to the market its intention to undertake a capital return of 35 cents per share, subject to shareholder approval. The capital return, which was approved at a shareholder meeting held on 6 September 2010 and which will equate to a total payment of approximately $35,000,000, is in line with the objectives of the Groups capital management plan.

### *Accumulated losses*

Movements in accumulated losses were as follows:

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 | 2010<br>$'000 | 2009<br>$'000 |
| **Balance 1 July** | (33,063) | (38,740) | (44,286) | (42,269) |
| Net profit for the year | 12,253 | 7,166 | 17,433 | (528) |
| Dividends | (9,066) | (1,489) | (9,066) | (1,489) |
| **Balance 30 June** | (29,876) | (33,063) | (35,919) | (44,286) |

### *Employee Option Reserve*

Movements in the employee option reserve were as follows:

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 | 2010<br>$'000 | 2009<br>$'000 |
| **Balance 1 July** | 816 | 774 | 816 | 774 |
| Charge for the period | - | 42 | - | 42 |
| **Balance 30 June** | 816 | 816 | 816 | 816 |

The employee option reserve recognises the fair value of options issued to employees and other related parties as remuneration. It applies to all share-based payments issued after 7 November 2002, which had not vested as at 1 January 2005. The option value is calculated using a Binomial model and expensed over the period in which the options vest. The value allocated to each option issue is determined, among other things, by reference to, the share price at the date of grant, the volatility of the share price, and current risk free interest rates.

## NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its financial assets and liabilities comprising cash and cash equivalents, loans and advances, receivables, payables, interest bearing liabilities and fixed to floating interest rate swaps, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and prepayment risk. The Group manages these risks in accordance with its risk management policies. The objective of the policies is to support the delivery of the Group's financial target whilst protecting future financial security.

The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate risk, prepayment risk and assessment of market forecast for interest rates. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk. Liquidity is monitored through the development of future rolling cash flow forecasts.

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the company's risk management framework. The fundamental aim of the company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders.

The Board reviews the different types of risk the entity is exposed to including those related to commercial and legal, economic circumstance, natural events, regulations, technological and technical issues and risk related to management activities. A number of possible treatment options are proposed by management and reviewed by the Board and an option is chosen to proceed with. A member of the senior management team is then made responsible for its implementation and a process is put in place to monitor and control the risk.

### Credit risk exposures

Credit risk is the risk that the group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The group has established lending policies and procedures to manage the credit risk inherent in lending. The dominant lending focus has been in the housing market where standard lending practice is that the borrowing facilities for each client is mortgaged secured against residential property and via lenders mortgage insurance. In addition, loan balances are monitored with the result that the Group's exposure to bad debts is monitored and managed. Refer to note 11 for an ageing analysis of the loans.

The Group's broker division trades with recognised, credit-worthy lending institutions in Australia. The Group's approach to credit management utilises a credit risk framework to ensure that the following principals are adhered to:

- Independence from risk originators;
- Recognition of the different risks in the various Group businesses;
- Credit exposures are systematically controlled and monitored;
- Credit exposures are regularly reviewed in accordance with existing credit procedures; and
- Credit exposures include such exposures arising from derivative transactions.

Each of the divisions is responsible for managing credit risks that arise in their own areas with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk of the Group is monitored.

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount, net of any allowance for doubtful debts, of those assets as indicated in the Statement of Financial Position.

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 | 2010<br>$'000 | 2009<br>$'000 |
| **ASSETS** | | | | |
| Cash assets | 57,592 | 73,851 | 41,340 | 47,168 |
| Receivables | 5,296 | 6,245 | 19,028 | 17,044 |
| Loans and advances to customers * | 489,738 | 663,258 | - | - |
| Other financial assets | 34,393 | 34,023 | 23,450 | 22,344 |
| Total | 587,019 | 777,377 | 83,818 | 86,556 |

* Please refer to Note 18 (iv) for information relating to RMT Warehouse.

## Credit exposure by credit rating

The majority of the group cash assets, broking related receivable, future trailing commissions receivable and derivative financial assets are held with Australian banks with a S&P rating of at least "A" and above.

Loans and advances are for residential borrowers, who are not rated. All loans are individually mortgage insured by "A-" rated insurers.

## Concentration of credit risk

The Group minimises concentrations of credit risk in relation to cash, broking related accounts receivable, future trailing commission payable and derivative financial assets by undertaking transactions with a number of investment grade lending institutions. Some agreements with lenders also contain provisions requiring the Group to pay installments due from borrowers until securities are enforced or an insurance claim has been paid and to purchase the mortgage from the lender if Homeloans Limited is in default. The Group's risk in this area is mitigated by insurance policies and a rigorous credit assessment process.

The Group operates in residential mortgage industry segment and is not materially exposed to any individual borrower.

## Liquidity risk

Liquidity risk is the risk that the Group will be able to meet its payment obligations when they fall due under normal and stress circumstances. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and credit facilities to meet its obligations as they fall due. Surplus funds are generally invested in at call bank accounts or instruments with maturities of less than 90 days. Within the RMT SPV's, the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 18, the Group has unused warehouse facilities at the reporting date. However, given no new loans are being originated via this business segment, the unused facility is not required.

The Group's Finance department monitors actual and forecast cash flows on a daily basis to ensure that sufficient cash resources and/or financing facilities are in place to ensure the Group can meet its corporate debts and other payment obligations as and when they fall due. The Board receives a summary of actual cashflow movements each month, as well as periodic cashflow forecasts over short and longer term horizons. This information is a key aspect of the Boards strategic planning process to ensure the Group maintains a desirable liquidity position going forward.

The Group's mortgage loan balances are typically repayable over 25-30 years. In contrast, the Group borrows funds with differing maturity profiles:

*Term Bonds payable*
Term bonds payable are residential mortgage backed securities (RMBS) issued by the Group's SPV's. They are 32 year pass through securities that may be repaid early (i.e. at the call date) by the issuer in certain circumstances.

*RMT warehouse facility*
The RMT warehouse facility is a short term pass through funding facility (typically 12 months) that is renewable annually at the funder's option.

Going forward, the group is reliant on the renewal/negotiation of the existing warehouse facility or the issuance of new residential mortgage backed securities in order to fund the existing mortgage loans in the RMT SPV. The Group's warehouse facility has been extended for a further 12 months to 30 June 2011 and there are regular discussions with the warehouse provider in relation to future maturity of the facility. Although there has been some improvement in credit markets during the year, there still remains a degree of uncertainty over the medium term horizon. It should be noted that the warehouse facility is structured so that if it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

The table below summarises the maturity profile of the Group's contractual undiscounted financial liabilities including derivative financial instruments

| CONSOLIDATED | Balance $'000 | Maturity analysis 0 – 6 months $'000 | 6 – 12 months $'000 | 1 – 3 years $'000 | 3 – 5 years $'000 | > 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **30 June 2010** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Trade payables | 7,152 | 7,152 | - | - | - | - | 7,152 |
| Interest bearing liabilities | | | | | | | |
| - RMT Warehouse facility | 390,753 | 73,644 | 337,361 | - | - | - | 411,005 |
| - Bonds | 111,591 | 25,111 | 19,780 | 45,225 | 17,638 | 19,854 | 127,608 |
| - Loans from funders | 3,818 | 458 | 410 | 1,282 | 855 | 1,631 | 4,636 |
| Trailing commissions payable | 13,238 | 3,199 | 2,606 | 6,300 | 2,644 | 1,877 | 16,626 |
| Derivative financial liability | 427 | 64 | 61 | 345 | 2 | - | 472 |
| **Total** | 526,979 | 109,628 | 360,218 | 53,152 | 21,139 | 23,362 | 567,499 |

| CONSOLIDATED | Balance $'000 | Maturity analysis 0 – 6 months $'000 | 6 – 12 months $'000 | 1 – 3 years $'000 | 3 – 5 years $'000 | > 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **30 June 2009** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Leases and hire purchase | - | - | - | - | - | - | - |
| Trade payables | 10,834 | 10,834 | - | - | - | - | 10,834 |
| Interest bearing liabilities | | | | | | | |
| - Cash advance facility | 8,429 | 3,146 | 5,478 | - | - | - | 8,624 |
| - Net interest margin facility | 2,423 | 2,124 | 326 | - | - | - | 2,450 |
| - RMT Warehouse facility | 516,742 | 102,360 | 435,276 | - | - | - | 537,636 |
| - Bonds | 164,561 | 34,065 | 27,420 | 65,682 | 27,664 | 24,908 | 179,739 |
| - Loans from funders | 3,958 | 446 | 403 | 1,259 | 840 | 1,604 | 4,552 |
| Trailing commissions payable | 14,146 | 3,470 | 2,814 | 6,746 | 2,788 | 2,057 | 17,875 |
| Derivative financial liability | 1,060 | 80 | 326 | 169 | 574 | - | 1,149 |
| **Total** | 722,153 | 156,525 | 472,043 | 73,856 | 31,866 | 28,569 | 762,859 |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

| **Parent** | | **Maturity analysis** | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance $'000** | **0 – 6 months $'000** | **6 – 12 months $'000** | **1 – 3 years $'000** | **3 – 5 years $'000** | **> 5 years $'000** | **Total $'000** |
| **30 June 2010** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables | 17,280 | 17,280 | - | - | - | - | 17,280 |
| Interest bearing liabilities | | | | | | | |
| - Loans from funders | 3,811 | 457 | 409 | 1,280 | 854 | 1,628 | 4,628 |
| Trailing commissions payable | 6,325 | 1,669 | 1,330 | 3,036 | 1,128 | 660 | 7,823 |
| **Total** | 27,416 | 19,406 | 1,739 | 4,316 | 1,982 | 2,288 | 29,731 |

| **Parent** | | **Maturity analysis** | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance $'000** | **0 – 6 months $'000** | **6 – 12 months $'000** | **1 – 3 years $'000** | **3 – 5 years $'000** | **> 5 years $'000** | **Total $'000** |
| **30 June 2009** | | | | | | | |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables | 20,853 | 20,853 | - | - | - | - | 20,853 |
| Leases and hire purchase | - | - | - | - | - | - | - |
| Interest bearing liabilities | | | | | | | |
| - Cash advance facility | 8,429 | 3,146 | 5,478 | - | - | - | 8,624 |
| - Loans from funders | 3,943 | 444 | 401 | 1,255 | 837 | 1,599 | 4,536 |
| Trailing commissions payable | 7,095 | 1,907 | 1,509 | 3,402 | 1,230 | 685 | 8,733 |
| **Total** | 40,320 | 26,350 | 7,388 | 4,657 | 2,067 | 2,284 | 42,746 |

The above liquidity profile is based on the period from reporting date to contractual maturity date based on expected principal receipts from mortgage loans. The amounts disclosed in the tables are undiscounted cash flows based on the earliest date at which repayment is required. It should be noted that in the case of the RMT warehouse facility and term bonds, funding is arranged on a pass through basis and therefore there is an element of principal amortisation in each of these funding facilities prior to repayment. The expected principal pass through to the funders shown above is based on the expected principal receipts from mortgage loans. Calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions based on actual experience.

In the case of the warehouse facility, the above maturity profile reflects the contractual maturity date effective at reporting date. In the case of bonds, the maturity profile assumes that the issuer (i.e. the group's SPV) will not opt to repay the securities at the call date, but rather, that they will be repaid at their respective maturity dates.

## Interest rate risk

Interest rate risk is the risk to the Group's earnings and equity arising from movements in interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the yield curve and the volatility of the interest rates.

It is the group's policy to minimise the impact of interest rate movements on our debt servicing capacity, Group profitability, business requirements and company valuation.

The Group's main interest rate risk arises from mortgage loans, cash deposits and interest bearing liabilities. The vast majority of the Group's borrowings are issued at variable rates and expose the Group to interest rate risk. Mortgage loans that are written at variable rates and cash deposits also expose the Group to interest rate risk, however the risk is naturally hedged by the variable rate borrowings.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

The impact of a rising/falling BBSW benchmark over the Reserve Bank of Australia's target cash rate can have a significant increase/decrease in the cost of funding and therefore on the net spread earned on the mortgages funded in the RMT Trusts. In the event of a sustained differential to the benchmark, the Group actively manages this exposure by adjusting the interest rate charged to borrowers.

Mortgages written at fixed interest rates are managed with interest rate swaps to match the borrowings used to fund the mortgages. It is a policy of the Group to utilise swaps to manage interest rate risk for 100% of the outstanding balance of fixed rate loans.

The Group's objective is to minimise exposure to adverse risk and therefore continuously analyses its interest rate exposure. The Group's Finance department also monitors actual and forecast interest rate information and incorporates this data into the Group's financial forecasts that are prepared on an ongoing basis throughout the year.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 57,592 | 73,851 | 41,340 | 47,168 |
| Loans and advances to customers | 475,324 | 642,285 | - | - |
| Derivative financial instrument (notional value) | 14,414 | 20,972 | - | - |
| | 547,330 | 737,108 | 41,340 | 47,168 |
| **Financial liabilities** | | | | |
| Interest-bearing liabilities - floating | (506,162) | (696,113) | (3,811) | (12,372) |
| | (506,162) | (696,113) | (3,811) | (12,372) |
| **Net Exposures** | 41,168 | 40,995 | 37,529 | 34,796 |

The sensitivity to movements in interest rates in relation to the value of the interest bearing financial assets and liabilities is shown in the table below with all other variables held constant and assuming that interest rate changes are passed on. The change in basis points is derived from a review of historical movements.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Movement in variable** | **Net Profit / (Loss) after tax $'000** | **Total Equity $'000** | **Net Profit / (Loss) after tax $'000** | **Total Equity $'000** |
| **Consolidated** | | | | |
| + 100bps | 288 | 288 | 301 | 301 |
| - 100bps | (288) | (288) | (301) | (301) |
| **Parent** | | | | |
| + 100bps | 263 | 263 | 244 | 244 |
| - 100bps | (263) | (263) | (244) | (244) |

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above, a 100bps movement in interest rate risk would have minimal impact on the consolidated Group's financial position.

## Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers repay earlier than expected, which results in adverse movements in the future trailing commissions receivable and future trailing commissions payable. Refer to note 12 and note 19 for exposure at the balance date. The group monitors the prepayment rates on a monthly basis and modifies its valuation model input when the trends are established.

The consolidated Group's sensitivity to movements in prepayment rates in relation to the value of the financial assets and liabilities is shown in the table below with all other variables held constant. The change is derived from a review of historical movements.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Movement in variable** | **Net Profit / (Loss) after tax $'000** | **Total Equity $'000** | **Net Profit / (Loss) after tax $'000** | **Total Equity $'000** |
| **Consolidated** | | | | |
| + 10% | (1,184) | (1,184) | (1,180) | (1,180) |
| - 10% | 1,388 | 1,388 | 1,365 | 1,365 |
| **Parent** | | | | |
| + 10% | (959) | (959) | (916) | (916) |
| - 10% | 1,132 | 1,132 | 1,064 | 1,064 |

The risks faced and methods used in the sensitivity analysis did not change from the previous period.

## Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

*Recognised Financial Instruments*

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term maturity.

Receivables, loans and advances, other financial assets, payables, non-interest bearing liabilities and variable rate interest bearing liabilities:
The carrying amount approximates fair value. In the case of Non-interest bearing liabilities, this is because they are short term in nature.

The fair value of interest rate swap contracts and fixed rate interest bearing liabilities is determined by reference to market value for similar instruments.
The future trailing commissions receivable and future trailing commissions payable have a carrying amount that approximates fair value.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| *Consolidated* | | | | |
| *Financial assets* | | | | |
| Cash | 57,592 | 73,851 | 57,592 | 73,851 |
| Receivables | 5,296 | 6,245 | 5,296 | 6,245 |
| Loans and advances to customers | 489,738 | 663,258 | 489,738 | 663,258 |
| Other financial assets | 34,393 | 34,023 | 34,393 | 34,023 |
| *Financial liabilities* | | | | |
| Payables | 7,152 | 10,834 | 7,152 | 10,834 |
| Interest bearing liabilities | 506,162 | 696,113 | 506,162 | 696,113 |
| Other financial liabilities | 13,665 | 15,206 | 13,665 | 15,206 |

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| *Parent* | | | | |
| *Financial assets* | | | | |
| Cash | 41,340 | 47,168 | 41,340 | 47,168 |
| Receivables | 19,028 | 17,044 | 19,028 | 17,044 |
| Other financial assets | 23,450 | 22,344 | 23,450 | 22,344 |
| | | | | |
| *Financial liabilities* | | | | |
| Payables | 17,280 | 20,853 | 17,280 | 20,853 |
| Interest bearing liabilities | 3,811 | 12,372 | 3,811 | 12,372 |
| Other financial liabilities | 6,325 | 7,095 | 6,325 | 7,095 |

## NOTE 25: COMMITMENTS AND CONTIGENCIES

### Operating lease commitments – Group as lessee

The Group has entered into commercial property leases on its office space requirements. Operating leases have an average lease term of 3.0 years. Assets, which are the subject of operating leases, include office space and items of office machinery.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Within one year | 1,772 | 1,592 | 1,772 | 1,592 |
| After one year but not more than five years | 4,038 | 4,277 | 4,038 | 4,277 |
| More than five years | - | - | - | - |
| | 5,810 | 5,869 | 5,810 | 5,869 |

### Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its surplus office space requirements.
Operating leases have an average lease term of 2.0 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Within one year | 753 | 724 | 753 | 724 |
| After one year but not more than five years | 938 | 1,691 | 938 | 1,691 |
| More than five years | - | - | - | - |
| | 1,691 | 2,415 | 1,691 | 2,415 |

### Superannuation Commitments

Employees and the employer contribute to a number of complying accumulation funds at varying percentages of salaries and wages. The Group's contributions of up to 9% of employees' wages and salaries are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act.

### Contingent liabilities and capital commitments

The directors were not aware of any contingent liabilities or capital commitments as at the end of the financial year or arising since balance date.

### Loans approved but not advanced

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010 $'000 | 2009 $'000 | 2010 $'000 | 2009 $'000 |
| Loans approved but not advanced | - | 346 | - | - |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

## NOTE 26: RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Homeloans Limited and the subsidiaries listed in the following table:

| Name | Country of incorporation | % Equity interest 2010 $'000 | 2009 $'000 | Investment 2010 $'000 | 2009 $'000 |
|---|---|---|---|---|---|
| *Parent entity* | | | | | |
| Homeloans Limited | | | | | |
| *Controlled entities of Homeloans Limited:* | | | | | |
| NSW Home Loans Pty Ltd | Australia | 100% | 100% | - | - |
| VIC Home Loans Pty Ltd | Australia | 100% | 100% | - | - |
| QLD Home Loans Pty Ltd | Australia | 100% | 100% | - | - |
| SA Home Loans Australia Pty Ltd | Australia | 100% | 100% | - | - |
| WA Home Loans Australia Pty Ltd | Australia | 100% | 100% | - | - |
| IF & I Securities Pty Ltd | Australia | 100% | 100% | - | - |
| FAI First Mortgage Pty Ltd | Australia | 100% | 100% | - | - |
| Access Home Loans Consolidated incorporating: | | | | 6,869 | 6,869 |
| - Access Network Management Pty Ltd | Australia | 100% | 100% | - | - |
| - Access Home Loans Pty Ltd | Australia | 100% | 100% | - | - |
| - HLL Pty Ltd | Australia | 100% | 100% | - | - |
| Independent Mortgage Corporation Pty Ltd | Australia | 100% | 100% | - | - |
| Match Funds Management Limited | Australia | 100% | 100% | 56 | 56 |
| Residential Mortgage Trust Warehouse Trust No.1(a) | Australia | 100% | 100% | - | - |
| RMT Securitisation Trust No.5 (a) | Australia | 100% | 100% | - | - |
| RMT Securitisation Trust No.6 (a) | Australia | 100% | 100% | - | - |
| RMT Securitisation Trust No.7 (a) | Australia | 100% | 100% | - | - |
| Auspak Financial Services Pty Ltd | Australia | 100% | 100% | 1,466 | 1466 |
| | | | | 8,391 | 8,391 |

a – Capital unit is held by a third party.

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding balances at year-end, refer to Note 9 and Note 17)

| Related party | | Sales to related parties $ | Purchases from related parties $ | Amounts owed by related parties $ | Amounts owed to related parties $ |
|---|---|---|---|---|---|
| PARENT | | | | | |
| *Subsidiaries*: | | | | | |
| FAI First Mortgage Pty Ltd | 2010 | 3,161,559 | - | 4,496,012 | - |
| | 2009 | 6,144,110 | - | - | 56,510 |
| Access Network Management Pty Ltd | 2010 | 2,138,857 | - | 2,321,293 | 8,209,726 |
| | 2009 | 3,975,025 | - | 2,711,475 | 8,209,726 |
| Match Funds Management Limited | 2010 | - | - | - | 12,072 |
| | 2009 | - | - | - | 14,014 |
| Independent Mortgage Corporation Pty Ltd | 2010 | - | - | 10,677,025 | - |
| | 2009 | - | - | 12,255,331 | - |
| Residential Mortgage Trusts | 2010 | - | - | - | 3,705,795 |
| | 2009 | - | - | - | 3,705,795 |
| Auspak Financial Services Pty Limited | 2010 | - | - | - | 538,768 |
| | 2009 | - | - | 256,387 | - |
| *Other related parties:* | | | | | |
| National Mortgage Brokers Pty Ltd (formerly Mosaic Financial Services Pty Ltd) | 2010 | - | - | 234,419 | - |
| | 2009 | - | - | 166,241 | - |
| Advantedge Financial Services (formerly Challenger Mortgage Management) | 2010 | 3,287,863 | - | - | - |
| | 2009 | 1,672,385 | - | - | - |

The loans to and from subsidiaries are interest free and are repayable on demand.

*Other related parties*

The Group has a 26.5% interest in National Mortgage Brokers Pty Limited ("nMB"). nMB was incorporated in Australia and its principal activity is mortgage origination

## NOTE 27: EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 22 July 2010, the directors of the Company announced to the market their intention, subject to shareholder approval, to return 35 cents per share to shareholders via a reduction of capital. The return was approved at a shareholder meeting held on 6 September 2010 and is payable on 21 September 2010. The payment, which will be made to holders of fully paid ordinary shares, will total approximately $35m.

On 27 August 2010, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2010 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2010 financial statements. The final dividend is payable on 21 September 2010.

Other than the matters reported above, there has been no other matter or circumstance that has arisen since the balance date that has affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent periods.

## NOTE 28: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010<br>$ | 2009<br>$ | 2010<br>$ | 2009<br>$ |
| Amounts received or due and receivable by Ernst & Young (Australia) for: | | | | |
| • an audit or review of the financial report of the entity and any other entity in the consolidated group | 251,423 | 271,817 | 216,300 | 222,995 |
| • a compliance audit or review of the financial report of the entity and any other entity in the consolidated group | 12,360 | 12,360 | 7,725 | 7,725 |
| | 263,783 | 284,177 | 224,025 | 230,720 |

## NOTE 29: DIRECTORS AND EXECUTIVE DISCLOSURES

Compensation by Category: Key Management Personnel, including the five highest remunerated executives of the Company and the Group

| | CONSOLIDATED | | HOMELOANS LIMITED | |
|---|---|---|---|---|
| | 2010<br>$ | 2009<br>$ | 2010<br>$ | 2009<br>$ |
| Short-Term | 1,796,719 | 1,678,481 | 1,796,719 | 1,678,481 |
| Post Employment | 113,967 | 110,662 | 113,967 | 110,662 |
| Other Long-Term | 68,000 | - | 68,000 | - |
| Termination Benefits | - | 199,184 | - | 199,184 |
| Share-based Payment | 680 | 1,314 | 680 | 1,314 |
| | 1,979,366 | 1,989,641 | 1,979,366 | 1,989,641 |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

*Option holdings of Key Management Personnel, including the five highest remunerated executives of the Company and the Group (Consolidated)*

| | Balance at beginning of period 1 July 09 | Granted as remuneration | Options exercised | Net Change Other | Balance at end of period 30 June 10 | Total | Vested at 30 June 2010 Exercisable | Not Exercisable |
|---|---|---|---|---|---|---|---|---|
| 30 June 2010 | | | | | | | | |
| **Executives** | | | | | | | | |
| L.McDonald | 95,000 | - | (50,000) | - | 45,000 | 45,000 | 45,000 | - |
| A.Carn | - | - | - | - | - | - | - | - |
| C.Matthews | - | - | - | - | - | - | - | - |
| S.McWilliam | 50,000 | - | (37,500) | - | 12,500 | 12,500 | 12,500 | - |
| S.Scahill | 75,000 | - | - | (75,000) | - | - | - | - |
| G. Mitchell | - | - | - | 25,000 | 25,000 | 25,000 | 25,000 | - |
| **Total** | **220,000** | **-** | **(87,500)** | **(50,000)** | **82,500** | **82,500** | **82,500** | **-** |

| | Balance at beginning of period 1 July 08 | Granted as remuneration | Options exercised | Net Change Other# | Balance at end of period 30 June 09 | Total | Vested at 30 June 2009 Exercisable | Not Exercisable |
|---|---|---|---|---|---|---|---|---|
| 30 June 2009 | | | | | | | | |
| **Directors** | | | | | | | | |
| B.D.Jones | 2,000,000 | - | - | (2,000,000) | - | - | - | - |
| **Executives** | | | | | | | | |
| L.McDonald | 95,000 | - | - | - | 95,000 | 95,000 | 95,000 | - |
| A.Carn | - | - | - | - | - | - | - | - |
| C.Matthews | - | - | - | - | - | - | - | - |
| S.McWilliam | 50,000 | - | - | - | 50,000 | 37,500 | 37,500 | - |
| S.Scahill | 75,000 | - | - | - | 75,000 | 62,500 | 62,500 | - |
| **Total** | **2,220,000** | **-** | **-** | **(2,000,000)** | **220,000** | **195,000** | **195,000** | **-** |

# includes cancelled, forfeits and options that lapsed or did not meet performance hurdles.

### Shareholdings of Key Management Personnel (including the five highest remunerated executives of the Company and the Group)

*Shares held in Homeloans Limited (number)*

| | Balance 01 July 2009 Ord. | Granted as remuneration Ord. | On exercise of Options Ord. | Net Change Other Ord. | Balance 30 June 2010 Ord. |
|---|---|---|---|---|---|
| 30 June 2010 | | | | | |
| **Directors** | | | | | |
| T.A.Holmes | 12,453,170 | - | - | 23,625 | 12,476,795 |
| R.P.Salmon | 12,114,186 | - | - | - | 12,114,186 |
| R.N.Scott | 2,078,954 | - | - | - | 2,078,954 |
| B.R.Benari | - | - | - | - | - |
| A.L. Hall | - | - | - | - | - |
| **Executives** | | | | | |
| L.McDonald | - | - | 50,000 | - | 50,000 |
| S.McWilliam | - | - | 37,500 | - | 37,500 |
| S.Scahill | 69,896 | - | - | (69,896) | - |
| G. Mitchell | - | - | - | 455 | 455 |
| **Total** | **26,716,206** | **-** | **87,500** | **(45,816)** | **26,757,890** |

*NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010 (Continued)*

*Shares held in Homeloans Limited (number)*

| | Balance 01 July 2008 Ord. | Granted as remuneration Ord. | On exercise of Options Ord. | Net Change Other Ord. | Balance 30 June 2009 Ord. |
|---|---|---|---|---|---|
| 30 June 2009 | | | | | |
| **Directors** | | | | | |
| T.A.Holmes | 12,453,170 | - | - | - | 12,453,170 |
| R.P.Salmon | 12,114,186 | - | - | - | 12,114,186 |
| R.N.Scott | 2,077,982 | - | - | 972 | 2,078,954 |
| B.D.Jones | 225,952 | - | - | (225,952) | - |
| B.R.Benari | - | - | - | - | - |
| D.Stevens | - | - | - | - | - |
| A.L. Hall | - | - | - | - | - |
| **Executives** | | | | | |
| L.McDonald | - | - | - | - | - |
| S.McWilliam | - | - | - | - | - |
| S.Scahill | 69,896 | - | - | - | 69,896 |
| **Total** | **26,941,186** | **-** | **-** | **(224,980)** | **26,716,206** |

## Loans to Key Management Personnel (including the five highest remunerated executives of the Company and the Group)

(i) Details of aggregates of loans to key management personnel are as follows:

| | Balance at beginning of period $'000 | New Loans $'000 | Interest Charged $'000 | Interest not Charged $'000 | Balance at end of period $'000 | Number in group # |
|---|---|---|---|---|---|---|
| 2010 | 3,217 | - | 192 | - | 3,182 | 2 |
| 2009 | 3,283 | 239 | - | - | 3,217 | 2 |

(ii) Details of key management personal with loan above $100,000 in the reporting period are as follows:

| | Balance at beginning of period $'000 | New Loans $'000 | Interest Charged $'000 | Interest not Charged $'000 | Balance at end of period $'000 | Highest Balance in Period $'000 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| T.A. Holmes | 2,398 | - | 140 | - | 2,367 | 2,472 |
| R. P Salmon | 819 | - | 52 | - | 815 | 820 |
| **Total** | **3,217** | **-** | **192** | **-** | **3,182** | **3,292** |

The above loans represent residential mortgages and have been advanced under the same terms and conditions as other borrowers. There were no other transactions with directors or key management personnel during the year.

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Homeloans Limited, I state that:

1. In the opinion of the directors:

(a) the financial statements and notes of the Company and the Group are in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the Company and Group's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; 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.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010

On behalf of the Board

Timothy A. Holmes
Executive Chairman

Perth, 21 September 2010

ERNST & YOUNG

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# Independent auditor's report to the members of Homeloans Limited

## Report on the Financial Report

We have audited the accompanying financial report of Homeloans Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

ERNST & YOUNG

## *Auditor's Opinion*

In our opinion:

1. the financial report of Homeloans Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the financial position of Homeloans Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 16 to 21 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Homeloans Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
21 September 2010

TD:MJ:HLL:064

# INVESTOR INFORMATION

The following information is furnished under the requirements of Chapter 4 of the Listing Rules of the Australian Securities Exchange, to the extent that the information required does not appear elsewhere in this report.

## The information has been prepared as at 16 September 2010

### (a) Substantial Shareholders:

Set out below are the names of substantial shareholders of the Company and the number of equity securities in which they have a relevant interest as disclosed in substantial holding notices given to the Company.

| Substantial Holder | Number of ordinary shares in which interest held |
|---|---|
| Challenger Group Holdings Ltd | 22,886,540 |
| National Australia Bank Ltd | 17,363,460 |
| Redbrook Nominees Pty Ltd<br>Acres Holdings Pty Ltd | 14,745,668 |
| Timothy Alastair Holmes, Tico Pty Ltd (TA Holmes Family A/c), Tico Pty Ltd (TA Holmes Superfund A/c), Carol Mary Holmes, Joanna Mary Holmes, Tiffany Eliza Farrar Holmes, Lucy Caroline Holmes | 12,476,795 |
| Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/c), Peterly Pty Ltd (Salmon Superfund A/c) | 12,114,186 |

### (b) The number of holders of each class of security

There are 675 holders of Ordinary Shares.
There are 5 holders of Employee Options.

### (c) Voting Rights

The Company has only ordinary shares on issue. All of the Ordinary Shares are fully paid. The holders of the fully paid Ordinary Shares are entitled to attend and vote at all general meetings of the Company and are entitled to be represented at the meeting. On a show of hands each member present is entitled to one vote and on a poll each member present is entitled to one vote for every ordinary share held.

### (d) Distribution Schedule of the number of holders of equity securities in the following categories:

| Size of holdings | Ordinary Shares Number of holders |
|---|---|
| 1 – 1,000 | 98 |
| 1,001 – 5,000 | 286 |
| 5,001 – 10,000 | 101 |
| 10,001 – 100,000 | 156 |
| 100,001 and over | 34 |
| **TOTAL** | **675** |

There are 39 shareholders with less than a marketable parcel of shares. A marketable parcel of shares is defined by the ASX as a parcel of shares worth more than $ 500.00.

### (e) Top 20 holders of Ordinary Shares:

| Name | Ordinary Shares | |
|---|---|---|
| | Number of Shares held | % holding |
| Challenger Group Holdings Ltd | 22,886,540 | 22.46 |
| National Australia Bank Ltd | 17,363,460 | 17.04 |
| Redbrook Nominees Pty Ltd | 13,214,891 | 12.97 |
| Tico Pty Ltd | 11,923,420 | 11.70 |
| Peterlyn Pty Ltd | 11,747,975 | 11.53 |
| Hartley Phillips Securities Pty Ltd | 4,218,811 | 4.14 |
| UBS Wealth Management Australia Pty Ltd | 3,446,312 | 3.38 |
| Gemtrick Pty Ltd | 2,148,139 | 2.11 |
| Acres Holdings Pty Ltd | 1,530,777 | 1.50 |
| RBC Dexia Investor Services Australia Nominees Pty Ltd | 1,494,404 | 1.47 |
| Ferber Holdings Pty Ltd | 1,407,855 | 1.38 |
| Carpenter Nominees Pty Ltd | 670,127 | 0.66 |
| Mr Jarrod Smith | 472,000 | 0.46 |
| JAMAC Holdings Pty Ltd | 429,955 | 0.42 |
| Mr Timothy Holmes | 423,211 | 0.41 |
| Daison Holdings Pty Ltd | 409,078 | 0.40 |
| Mr Robert Salmon | 366,211 | 0.36 |
| Mr Kim Cannon & Mrs Aspasia Cannon | 310,000 | 0.30 |
| Beneficial Home Loans Pty Ltd | 261,273 | 0.26 |
| Ms Kym Carter | 226,048 | 0.22 |
| **TOTAL** | **94,950,487** | **93.17%** |

### (f) Share Trading

The Company's shares are listed on the Australian Securities Exchange and the Home Exchange is Perth. Ordinary shares are traded under the code HOM.

### (g) Share Buy-Back

The on-market share buy-back of the Company's ordinary shares is temporarily suspended.