Homeloans

Homeloans Annual Report 2012

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 7 to 23.

Directors

Timothy Holmes (Executive Chairman/Managing Director)
Robert Salmon (Non-Executive Director)
Robert Scott (Non-Executive Director)
Brian Benari (Non-Executive Director) – resigned 17 February 2012
Andrew Hall (Non-Executive Director)
Gavin Buchanan (Non-Executive Director) – appointed 17 February 2012

Company Secretary

Jennifer Murray

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Facsimile: (08) 9327 1778

Corporate Office

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Sydney NSW 2000
Phone: (02) 8267 2000
Facsimile: (02) 8267 2045

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Customer enquiries: 13 38 39

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Perth WA 6850

Share Registry

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Perth WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

Bankers

Westpac Banking Corporation
Westpac Place
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Sydney NSW 2000

Auditors

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

Homeloans Annual Report 2012

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Executive Chairman's Report

On behalf of your Board, I am delighted to present the 2012 Annual Report for Homeloans Limited.

A resilient financial result

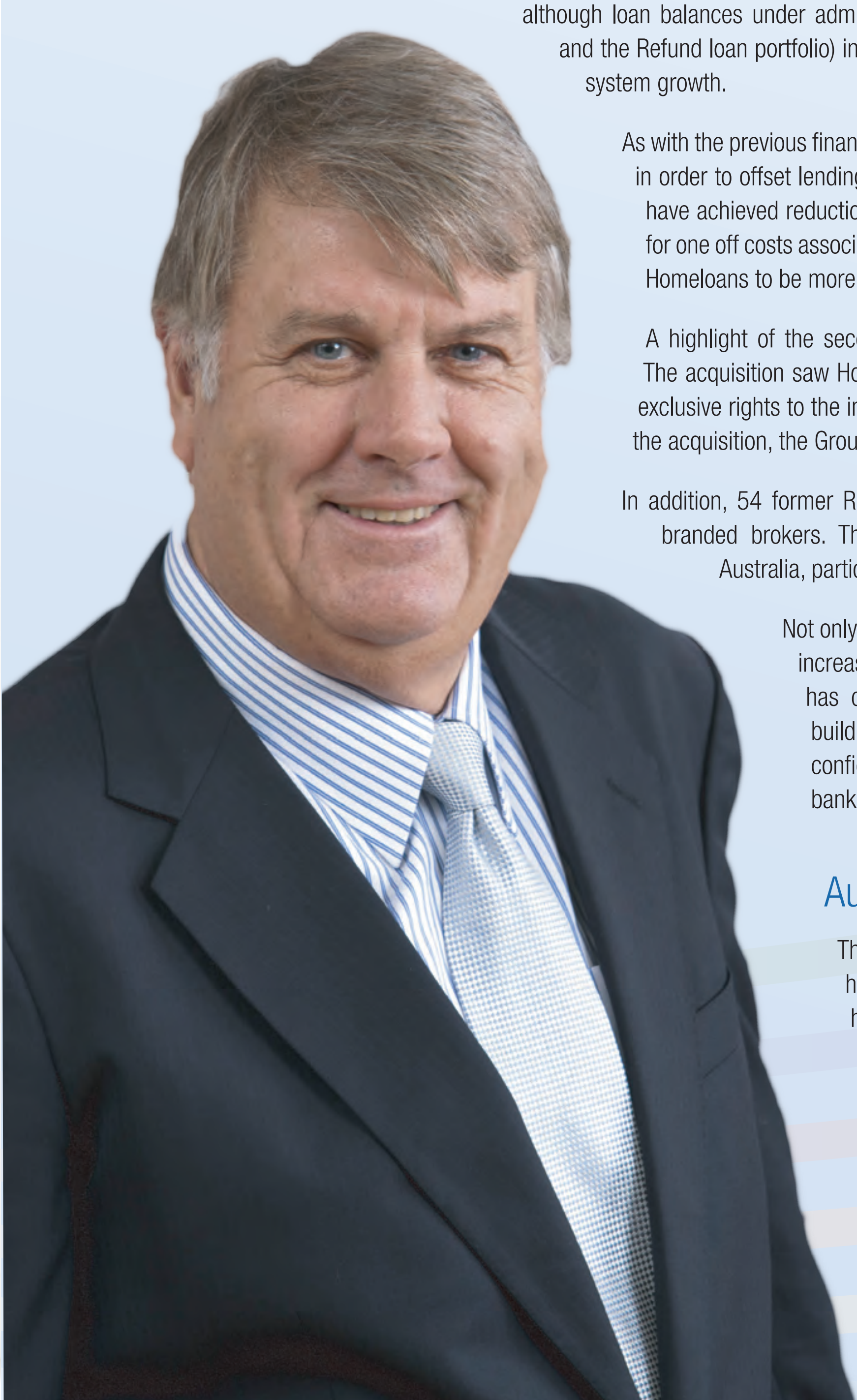
For the year ended 30 June 2012 Homeloans recorded a statutory net profit after tax of $8.1m, down from the previous financial year result of $9.2m which included a positive tax benefit and non cash adjustments of $1.1 million.

Normalised net profit after tax after adjusting for one off costs of acquisition of the business of Refund Home Loans Pty Limited ('Refund') [Administrators Appointed] and non cash adjustments was $8.0m, which was in line with the normalised net profit after tax for 30 June 2011 of $8.1m. This is a solid result given the challenging mortgage market and subdued consumer confidence we have experienced in the year.

Basic earnings per share on a statutory basis stood at 7.67 cents. Net tangible asset backing per share stood at 26.60 cents compared with 24.96 cents as at June 2011, a 7 per cent increase.

The Board is pleased to declare a fully franked final dividend of 3.5 cents per share, in line with the 2011 final dividend, bringing the total dividend to 6.0 cents per share for the year, fully franked.

In an operating environment characterised by subdued housing credit growth and intense competition, lending volumes were slightly down (4 per cent), although loan balances under administration by the Group (excluding the securitised loan portfolio and the Refund loan portfolio) increased 5.8 per cent on the previous financial year and ahead of system growth.



As with the previous financial year, a key focus in 2012 was improving operating efficiencies in order to offset lending volume and margin pressures in the market. We are pleased to have achieved reductions of 15 per cent, from $18 million to $15 million, after allowing for one off costs associated with the acquisition of Refund in June 2012. This has enabled Homeloans to be more agile and customer orientated.

A highlight of the second half of 2012 was the acquisition in June 2012 of Refund. The acquisition saw Homeloans attain the rights to Refund's $1.9 billion loan book and exclusive rights to the intellectual property and records of the Refund business. Following the acquisition, the Group's funds under administration rose to $7.8 billion.

In addition, 54 former Refund brokers entered into agreements to become Homeloans-branded brokers. This substantially enhances our branded retail network around Australia, particularly bolstering our presence on the eastern seaboard.

Not only has Homeloans' retail network been greatly enhanced, it has also increased our ability to further increase loan volumes. The acquisition has cemented Homeloans' position as a company that is keen to build a presence throughout the industry and shows that we have the confidence to remain a key player and a real alternative to the big four banks.

Australian mortgage market

The Australian home lending environment over the past financial year has been defined by a number of challenges. Housing credit growth has been at historically low levels and consumer confidence levels have remained low as a result of subdued local and international economic conditions.

As a result, the housing market has been impacted and the pool for new mortgage lending has tightened. This, in turn, has seen competition in the mortgage market become increasingly aggressive. At the forefront of the increased competition are the major banks, which have been keen to protect their majority share of total new mortgage lending flow.

The impact of the abolition of exit fees on mortgage lending products from 1 July 2011 continues to play out in the market; however Homeloans has seen its average loan life increase in the period with our product offerings remaining competitive and attractive to customers.

In the face of these challenges, Homeloans has continued to perform well and deliver resilient results. We have also continued to identify opportunities to grow our business, evidenced by the Refund acquisition. This is a key plank of our strategy moving forward and better positions Homeloans to withstand the tough climate which is likely to prevail into the year ahead.

Expansion and growth

During FY12 we continued to focus on expanding our retail presence nationally in order to generate increased loan volumes. In line with this strategy we opened new retail offices in Albany, in the great southern region of Western Australia, as well as Newcastle on the New South Wales Central Coast. These regional centres have been identified as strong growth areas and provide a perfect fit for Homeloans, particularly as our strategy is to expand our presence and brand with the right partners.

As outlined above, a major milestone at the end of the financial year was the acquisition of Refund, which has broadened our national reach with the addition of 54 new brokers to our retail network. As the acquisition was concluded in June 2012, the flow on effects will obviously be experienced in FY13 and beyond.

We continue to look for such opportunities and are well positioned to take advantage of these. We continue to be supported by strong operating cashflows and are well placed to meet ongoing funding requirements, including future business development and investment.

As in 2011, Homeloans continued to benefit from a diversified funding base in 2012, which supported a 6.3 per cent growth in its own branded loan book. This reflects ongoing focus on providing a competitive offering and on retention activities.

Strong relationships with our wholesale funding partners has enabled us to continue improving and expanding our product offering, particularly in niche markets where we identify growth prospects.

We plan to concentrate on identifying opportunities where we can offer specialised products and grow these sectors alongside our core product range and, in turn, further enhance our competitiveness and increase our market share.

The next 12 months

We expect general market conditions to remain subdued at least into the first half of the new financial year. However, Homeloans has a number of strong platforms from which to grow our business and differentiate ourselves in the market and thus ensure we are able to make the most of opportunities, both within a flat market and also as market conditions improve. In addition, our national presence provides for diversification across the economic nuances of the various state economies that may be experienced.

The Group remains focused on expanding our business via acquisitions and organic growth, increasing lending volumes through strategic relationships with our wholesale funders and enhancing our product offering.

On behalf of the Board, I would like to thank our management team and all our people for their hard work during the past year. Thank you also to our key stakeholders and business partners for their ongoing support.

I would also like to thank my fellow Directors for their contribution and support throughout the year.

Timothy A. Holmes
Executive Chairman

The Year in Review

Profit

Homeloans recorded a statutory net profit after tax of $8.1m for the year ended 30 June 2012, down from the previous financial year result of $9.2m, which included a positive tax benefit and non-cash adjustments of $1.1m. Normalised net profit after tax after adjusting for one off costs associated with the acquisition of Refund and non-cash adjustments was $8.0m which was in line with the normalised net profit after tax for 30 June 2011 of $8.1m.

Net tangible asset backing per share was 26.60 cents, an increase of 7% on the comparable prior period result of 24.96 cents.

Return on ordinary equity was 20.2% versus 20.9% for the previous year.

Dividend

The Board has declared a fully franked final dividend of 3.5 cents per share taking the full year dividend to 6 cents per share, fully franked, which is in line with the previous year.

Earnings per share

Basic earnings per share on a statutory basis stood at 7.67 cents.

Changes to the Board of Directors

During the financial year Non-Executive Director Brian Benari resigned and was replaced by Gavin Buchanan on 17 February 2012. Gavin is the Group Treasurer of Challenger Limited and has been with the company since 2007.

Management and Personnel

As at 30 June 2012, Homeloans had 78 full-time equivalent staff and 91 retail consultants nationally. We have a clear objective when recruiting: to identify and employ staff who fit the corporate culture of the company, and to facilitate their growth within the business. Skills and market expertise are developed by a combination of mentoring, training and on the job experience.

Distribution

Homeloans has 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

Third party distribution is a vital part of the Homeloans business. Whilst volumes were down in FY2012, it was a promising result, particularly in a challenging market, one defined by competition between the banks and mutuals, in addition to the strength of aggregation models which have moved aggressively into the white labelling space.

One of our key objectives during the year was to maintain and grow our relationships in the third party market with a strong focus on ensuring our core product offerings meet the needs of our brokers.

As part of this strategy, we identified a group of high-potential brokers, worked closely with them to identify their particular requirements, and matched these to specific Homeloans products. This is known as the Homeloans Elite Broker Circle.

The Elite Broker Circle remains a focus of the Group in delivering superior service to our preferred brokers. The success of this program is evident in the fact that Homeloans is consistently judged as a leader in service standards and brand awareness in independent surveys on the mortgage lending industry. Additionally, the fact that the majority of third party loans are now being written by these brokers is also testament to the initiative's success. During the year we also bolstered our Business Development Management team to ensure superior levels of service are provided to all our brokers and particularly those within the Elite Broker Circle.

Looking ahead, we will continue to strengthen our competitive positioning by maintaining our excellent service levels and competitiveness in the market. In addition we will continue to build and strengthen relationships and to provide a variety of relevant product solutions to our distribution partners.

Distribution – Direct sales

In line with our expansion strategy focusing on a mix of organic growth and acquisitions, Homeloans opened new retail offices during the year in Albany (WA) and Newcastle on the New South Wales Central Coast. These are regional markets where we have identified strong potential. We have also bolstered our branded retail network with the addition of 54 of the former Refund loan writers in June 2012.

Whilst the next financial year will see continued strong competition from the major retail banks, the fact that we have boosted our branded retail network substantially around Australia, particularly in Eastern states, gives us a strong platform to significantly expand Homeloans' branded distribution.

We will concentrate on identifying opportunities to enhance our product suite to increase our market penetration as well as ensuring core products remain competitive and attractive to our customers. An example of this was the launch of the near prime mortgage product via the Group's association with Pepper. The addition of this product during the year not only reflects a diversification of the Group's wholesale funder arrangements but also complements well the existing Homeloans product suite.

Marketing

As the digital world continues to grow, Homeloans has been quick to capitalise on the ever-emerging marketing opportunities it now presents.

During the year, we have dedicated our efforts on improving our online capabilities and online promotional activity targeting the ever-growing segment of consumers who research and acquire financial services products online. We also developed and launched a mobile website to provide a more accessible and relevant experience for mobile web users whilst continuing to update and improve our existing website.

In addition to these key online strategies, broker channel marketing has also been a key focus this year to further strengthen and nurture our relationships with high-potential brokers. With the acquisition of Refund, Homeloans also reviewed its market positioning in this space given the introduction of a large number of brokers to the business. This has seen Homeloans redefine its brand positioning as exclusively a lender, to more broadly a home loans solutions provider, although our core focus remains on our own products.

Homeloans also appreciates the importance of industry recognition and was proud to be named Mortgage Manager of the Year at the 2012 Mortgage and Finance Association Excellence Awards. Homeloans was also the winner of this award in 2009 and 2010. Winning this award is testament to our approach and our commitment to differentiating Homeloans from other lenders, and marketing this effectively.

Funding and operations

Improving operating efficiencies was a major focus during the year, especially in light of the challenging economic environment. As a result of the improvements in this area underlying operating expenses reduced by 15% or around $3 million compared with the previous financial year without compromising on service excellence.

Homeloans also maintained a strong relationship with its wholesale funding partners Bendigo and Adelaide Bank, Advantedge (division of NAB), ING and Pepper. All our funding partners have a desire to fund more loans and enable us to remain competitive in the market. The introduction of Pepper products has been well received across our distribution networks and we will continue to pursue further opportunities with new and existing funding partners in the year ahead to strengthen our positioning in the mortgage market.

Homeloans' proprietary funding line RMT did not fund any new originations during the year. We continue to roll over our warehouse funding line without any issues and we have maintained regular discussions with our warehouse facility provider as to the future utilisation of the facility. Whilst we were not in a position to fund new originations through RMT, we continued to manage the runoff performance and margin of the RMT funded loan portfolio.

Homeloans has also maintained good levels of residual cash reserves which continue to be supported by strong operating cashflows emanating from underlying earnings. We also remain free of any recourse debt facilities having repaid these in full in the 2010 financial year. The ongoing cash reserves will be more than sufficient to meet Homeloans' funding requirements including future business development and investment.

Homeloans remains well placed to capitalise on its diversified wholesale funding arrangements and mature, scalable processes to grow our managed loan portfolio and further strengthen our position as a genuine and preferred alternative to the major banks for mortgage finance.

Directors' Report

Your directors submit their report for the year ended 30 June 2012.

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 44 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 42 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 has not held any other Directorships of listed companies over the past three years.

Brian Roland Benari (Non-Executive Director) – resigned on 17 February 2012

Appointed 3 May 2007. Brian is the Chief Executive Officer and Managing Director of Challenger Limited. Prior to his appointment to this role in February 2012, Brian was the Chief Financial Officer / Chief Operating Officer of Challenger 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. 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 was a member of the company's audit committee and was 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.

Gavin James Buchanan (Non-Executive Director) – appointed on 17 February 2012

Gavin is the Group Treasurer of Challenger Limited ("Challenger") and has been with Challenger since 2007. Before joining Challenger, Gavin was the Director and Head of Financial Institutions for Barclays Capital in Australia and prior to this was the Chief Executive Officer of Australian Mortgage Securities Limited (a member of the Wizard Home Loans group), which was at the time, Australia's largest issuer of residential mortgage backed securities. Gavin has also previously held senior roles at both UBS and Citigroup in the area of securitisation. Gavin is a solicitor of the Supreme Court of NSW and has a Bachelor of Commerce and Bachelor of Laws from the University of NSW. Gavin was appointed to both the audit and nomination and remuneration committees on 24 April 2012.

Andrew Loddington Hall (Non-Executive Director)

Appointed 28 October 2008. Drew is the former 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 a Fellow 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.

Robert Norman Scott (Non-Executive Director)

Appointed 9 November 2000, Rob is a Chartered Accountant with over 37 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)
- Amadeus Energy Ltd (Appointed 30 October 1996)

Rob ceased to be a director of the following listed companies during the year:

- Neptune Marine Services Limited (30 March 2012)

Rob was formerly a director of the following listed companies:

- Allied Healthcare Group Ltd *formerly BioMD Ltd* (Resigned 14 June 2011)
- Australian Renewable Fuels Limited (Resigned 30 June 2011)

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 29 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	12,847,024	-
R P Salmon	12,477,449	-
R N Scott	2,156,116	-
A L Hall	-	-
G J Buchanan	-	-

Dividends

	Cents	$’000
Final dividends recommended:		
Final dividend for 2012		
- on ordinary shares	3.5	3,733
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (fully franked)	2.5	2,660
Final dividend for 2011		
- on ordinary shares (fully franked)	3.5	3,628

When making payment of the final dividend for 2011 and the interim dividend for 2011 from current year profits, the Company had announced that these dividends were fully franked for Australian Income Tax purposes. The Company had sufficient franking credits available to fully frank these dividends.

Management obtained a private ruling from the Australian Tax Office (“ATO”) dated 25 January 2012 which covers the period from 1 July 2010 to 31 December 2012. The ruling concludes that past dividends paid by the Group and the interim and final dividends proposed to be paid out of current period profits constitute frankable distributions under section 202-40 of the ITAA 1997. Management is confident that if necessary this private ruling can be extended beyond 31 December 2012.

Notwithstanding the favourable private ruling obtained, it is also noted that on 27 June 2012, the ATO released a public ruling on this matter, Taxation Ruling TR 2012/5. This ruling provided confirmation that a dividend paid out of current trading profits will be frankable even if the company has un-recouped prior year accounting losses or has lost part of its share capital. The ruling was consistent with the private ruling obtained by Homeloans Limited.

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 Bendigo and Adelaide Bank Limited, Advantedge Financial Services, Origin Mortgage Management Services, ING Bank (Australia) Limited, Pepper Homeloans Pty Ltd, 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 $8,110,000, down from the previous financial year result of $9,162,000. On a normalised basis, net profit after tax was $8,023,000, down marginally on the comparable prior year result of $8,076,000 (See Table 1 on page 11).

The Group has delivered a resilient result amidst what continues to be a challenging mortgage market. Despite a subdued economic environment and a highly competitive market, the Group focused on growing its business with the acquisition in June 2012 of the business of Refund Home Loans Pty Ltd ("Refund").

The acquisition of Refund has provided an excellent platform for taking Homeloans to the next level. As part of the acquisition, the Group acquired trail income and expense rights to Refund's $1.9 billion loan book. In addition, 54 Refund brokers entered into agreements to become Homeloans-branded brokers which now enhances the Group's branded retail network substantially around Australia.

With housing credit growth at historically low levels, loan balances under administration by the Group (excluding the securitised loan portfolio and the Refund loan portfolio) increased 5.8% on the previous financial year. The Group has continued to grow its branded loan book, achieving growth of 6.3% on June 2011, reflecting ongoing focus on providing a competitive offering and on retention activities. Lending volumes were down by 4% on the previous financial year. No new loans were written in the RMT during the year. As the current securitised loan portfolio reduces, the net fee commission income generated from this segment has declined accordingly. These factors combined have resulted in a decrease of 6% in net fee and commission income to $15,053,000, down from the previous corresponding period result of $16,083,000.

Total operating expenses of $15,544,000 were down 13.6% from the corresponding period of $17,982,000. After allowing for one off costs associated with the Refund acquisition of $292,000, operating expenses were $15,252,000, down 15.2% on the prior year. This reduction reflects concerted efforts across the Group to improve operating efficiencies in a lower growth environment. Achieving further efficiency improvements and ensuring we continue to be agile and customer orientated will remain key areas of focus for the Group over the year ahead.

Table 1:

	Consolidated *	
	2012 $'000	2011 $'000
Statutory Profit after tax	8,110	9,162
Add:		
Costs of acquisition (pre - tax)	292	-
Less:		
RMT cashflow re-estimation benefit (pre - tax)	(416)	(594)
Tax effect of the above	37	178
Tax consolidation benefit	-	(670)
Normalised profit after tax (non-IFRS information)	**8,023**	**8,076**

* The normalised profit after tax disclosed is unaudited. Management believe the disclosure of the normalised profit after tax provides additional insight into the underlying performance for the period.

The Group's warehouse facility has been extended for a further 12 months to 30 June 2013 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility given ongoing uncertainty in the global economy and within credit markets. It should be noted that the warehouse facility is structured so that in the highly unlikely event 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 Group expects general market conditions to remain subdued at least into the first half of the new financial year. The Board is confident the environment, combined with the increase in distribution networks, will present opportunities for the Group to continue to grow and differentiate itself in the market. The Group remains focused on expanding our business via acquisitions and organic growth, increasing lending volumes through strategic relationships with our wholesale funders and enhancing our product offering.

The Company has maintained good levels of residual cash reserves which continue to be supported by strong operating cashflows emanating from underlying earnings. The Company also remains free of any recourse debt facilities having repaid these in full in the 2010 financial year. 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:

	2012	
	Revenues $'000	Results $'000
Operating segments Origination and Management	36,732	5,858
Securitisation of Mortgages	27,977	5,682
Group revenue and profit from operating activities before income tax expense	64,709	11,540

Shareholder Returns

Basic earnings per share on a statutory basis was 7.67 cents.

	2012	2011	2010	2009	2008 [1]
Basic earnings per share (cents)	7.67	8.96	12.21	7.20	(12.42)
Return on assets (%) [3]	2.0%	1.8%	1.8%	0.9%	(1.2%)
Return on equity (%) [4]	20.2%	20.9%	18.6%	11.0%	(20.8%)
Dividend payout ratio (%) [5]	78.9%	67.5%	57.7%	96.4%	(16.1%) [2]

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 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.
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. Return on assets is calculated by taking the net profit after tax for the year and dividing by the average total 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.
4. Return on equity is calculated by taking the net profit after tax for the year and dividing by the average total equity.
5. Dividend Payout Ratio is calculated by dividing dividends declared from net profit after tax for the year by the net profit after tax.

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 2012 of $876,000 (2011: Decrease of $36,632,000).

Operating cash flow of $6,548,000 (2011: $4,152,000) 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 $1,720,000 (2011: negative movement of $2,627,000). Therefore, if the RMT SPV's had not been consolidated, total Group operating cashflow would have been $8,268,000 (2011: $6,779,000).

The Group maintains sufficient capital reserves to meet ongoing funding requirements. In addition to solid cash reserves, the Group also has an overdraft facility of $900,000 which was unutilised at 30 June 2012. The Residential Mortgage Trust has a warehouse facility of $250,000,000 as at 30 June 2012 (2011: $350,000,000) drawn to $244,040,000 at 30 June 2012 (2011: $309,373,000).

Asset and capital structure

Profile of Debts	2012 $'000	2011 $'000
The profile of the Group's debt finance is as follows:		
Bank loans – secured	244,040	309,373
Due to bondholders	54,180	70,381
Loans from funders	3,622	3,254
	301,842	383,008

The amount of the Group's debts has decreased over the financial year due to a reduction in loan balances within the RMT trusts.

Capital Expenditure

There has been a decrease in cash due to the purchase of equipment during the year ended 30 June 2012 of $182,000 compared to $299,000 in the year ended 30 June 2011.

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 Chief Financial Officer 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 27th August 2012, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2012 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2012 financial statements. The final dividend is payable on 2nd October 2012.

On 18th July 2012, the Group disposed of its 26.5% holding in National Mortgage Brokers Pty Limited for $1,550,000.

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 2012, there were no unissued ordinary shares under options (2011:125,000).

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.

100,000 ordinary shares were issued as a result of the exercise of options during the year under review. 25,000 options expired during the year.

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.

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

Directors

T.A.Holmes	Executive Chairman
B.R.Benari	Director (Non-Executive) - resigned 17 February 2012
R.P.Salmon	Director (Non-Executive)
R.N.Scott	Director (Non-Executive)
A.L.Hall	Director (Non-Executive)
G.J.Buchanan	Director (Non-Executive) - appointed 17 February 2012

Key Management Personnel

L.McDonald	Head of Credit/Underwriting
A.Carn	General Manager – Third Party Distribution - resigned 11 November 2011
C.Matthews	Chief Financial Officer – resigned 29 February 2012
I.Parkes	Chief Financial Officer – appointed 14 May 2012
S.McWilliam	Chief Operating Officer
G.Mitchell	General Manager – Sales (formerly General Manager - Retail Sales)

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.

Remuneration Report (continued)

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 Nomination and 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.

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 may consider 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 2012 and 30 June 2011 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 may, from time to time, engage an external consultant to provide independent advice detailing market levels of remuneration for comparable executive roles. No external consultant was engaged in the year ended 30 June 2012.

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

Remuneration Report (continued)

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, 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 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 2012 financial year

The remuneration committee determined the STI payments for the 2012 financial year in August 2012. The STI cash bonus for the 2012 financial year is $280,500, which includes $102,000 for the Key Management Personnel, and will vest and be paid in the 2013 financial year.

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.

Remuneration Report (continued)

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 on page 20 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 was also subject to a loyalty period, had been treated as an LTI amount given the payment was 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 amount vested and paid in December 2011 was $157,500, which included $117,500 for the Key Management Personnel.

LTI Share Bonus for the 2013 financial year

In August 2012, the Board awarded a "share based bonus" subject to shareholder approval of a new share award plan. This share based payment will be reflected in the 2013 Remuneration report. This LTI share based payment will be subject to continuing employment and amounts to $56,500, which includes $25,000 for the Key Management Personnel.

Employment contracts

Managing Director

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

During the financial year, in his role as Executive Chairman, Mr. Holmes was paid $281,728. This includes a base annual salary of $200,000 and back pay of $81,728 in relation to additional compensation for his executive duties for the period from November 2010 to June 2011. 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.

Remuneration Report (continued)

Remuneration of Key Management Personnel of the Company and the Group

Table 1: Remuneration for the year ended 30 June 2012 and 30 June 2011

		Short term			Post employment	Termination benefits	Long Term	Share –based Payment	Total	% performance related	% option related
		Salary & Fees	Cash Bonus	Non-monetary benefits	Superannuation		Incentive Plans [3]	Options			
Executive directors											
T.A.Holmes	2012	281,728	-	8,853	25,356	-	-	-	315,937	0.00%	0.00%
	2011	191,339	-	6,220	17,220	-	-	-	214,779	0.00%	0.00%
Non-executive directors											
R.P.Salmon	2012	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
	2011	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
R.N.Scott	2012	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
	2011	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
B.R.Benari [1]	2012	-	-	-	-	-	-	-	-	0.00%	0.00%
	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
A.L. Hall [2]	2012	-	-	-	-	-	-	-	-	0.00%	0.00%
	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
G.J. Buchanan [1]	2012	-	-	-	-	-	-	-	-	0.00%	0.00%
	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
Other Key Management Personnel											
L. McDonald	2012	208,500	25,500	7,584	20,205	-	4,000	-	265,789	11.10%	0.00%
	2011	185,000	40,000	9,915	20,970	-	8,000	-	263,885	18.19%	0.00%
A.Carn [4]	2012	112,797	-	2,049	14,988	80,000	-	-	209,834	0.00%	0.00%
	2011	235,000	40,000	9,915	26,235	-	31,500	-	342,650	20.87%	0.00%
C.Matthews [5]	2012	170,657	-	-	15,708	-	10,500	-	196,865	5.33%	0.00%
	2011	220,000	40,000	-	25,290	-	21,000	-	306,290	19.92%	0.00%
I.Parkes [6]	2012	24,230	-	-	2,181	-	-	-	26,411	0.00%	0.00%
	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
S.McWilliam	2012	214,425	51,000	-	23,888	-	-	-	289,313	17.63%	0.00%
	2011	190,000	40,000	-	21,600	-	10,000	-	261,600	19.11%	0.00%
G.Mitchell	2012	236,283	25,500	6,957	22,455	-	14,000	-	305,195	12.94%	0.00%
	2011	205,000	40,000	6,220	21,420	-	8,000	-	280,640	17.10%	0.00%
Totals	2012	1,356,120	102,000	25,443	124,781	80,000	28,500	-	1,716,844		
	2011	1,333,839	200,000	32,270	132,735	-	78,500	-	1,777,344		

1. Acting as a director in connection with discharging his duties as an executive of Challenger Limited ("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. Amounts shown represent "special cash bonus" accrual determined in respect of performance in 2010 which was paid in December 2011.
4. A. Carn resigned as General Manager – Third Party Distribution on 11th November 2011.
5. C. Matthews resigned as Chief Financial Officer on 29th February 2012.
6. I. Parkes was appointed Chief Financial Officer on 14th May 2012.

Remuneration Report (continued)

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 2012 (2011: no options granted).

No options vested during the year ended 30 June 2012 or 30 June 2011.

For details on the valuation of the options, including models and assumptions used, please refer to note 18.

Table 2: Value of options exercised and lapsed during the year (Consolidated)

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

30 June 2012	Value of options at date of exercise [1]	Value of options lapsed during the year
G Mitchell	9,500	-
	9,500	-

30 June 2011	Value of options at date of exercise [1]	Value of options lapsed during the year
L. McDonald	22,050	-
S. McWilliam	625	-
	22,675	-

1. This represents the intrinsic value of the options at the date of exercise

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

Table 3: Shares issued on exercise of options

30 June 2012	Number of shares issued	Paid per share $	Unpaid per share $
G.Mitchell	25,000	0.21	-
	25,000		-

30 June 2011	Number of shares issued	Paid per share $	Unpaid per share $
L. McDonald	45,000	0.46	-
S. McWilliam	12,500	0.56	-
	57,500		-

Remuneration Report (continued)

Company performance and shareholder returns

Basic earnings per share on a statutory basis was 7.67 cents.

	2012	2011	2010	2009	2008 [1]
Basic earnings (loss) per share (cents)	7.67	8.96	12.21	7.20	(12.42)
Return on assets (%)[2]	2.0%	1.8%	1.8%	0.9%	(1.2%)
Return on equity (%)	20.2%	20.9%	18.6%	11.0%	(20.8%)
Dividend payout ratio (%)	78.9%	67.5%	57.7%	96.4%	(16.1%)
Share price (cents)	58.0	62.0	70.0	55.0	48.0
Dividends (cents)	6.0	6.0	7.0	7.0	2.0

1. Results for 2008 have been further adjusted based upon the Group's change in accounting policy.
2. 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' 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' Meetings	Audit Committee	Nomination and Remuneration Committee
Number of meetings held:	13	2	2
Number of meetings attended:			
T. A. Holmes	13	-	-
R. P. Salmon	12	2	-
R. N. Scott	12	2	2
B. R. Benari (resigned 17 February 2012)	6	-	1
G. J. Buchanan (appointed 17 February 2012)	4	-	-
A. L. Hall	11	2	2

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

A.L. Hall

B.R. Benari – resigned 17 February 2012

G.J. Buchanan – appointed 24 April 2012

Nomination and Remuneration Committee

A.L. Hall (Chairman)

R.N. Scott

R.P. Salmon - resigned 1 July 2011

B.R. Benari – resigned 17 February 2012

G.J. Buchanan – appointed 24 April 2012

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.

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 following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Consultancy fees	178,910

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Executive Chairman

Perth, 25 September 2012

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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 for the year ended 30 June 2012, 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
25 September 2012

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 and including 2010 amendments. 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	11yrs 11 months
R.P Salmon	Non – Executive Director	11yrs 11 months
R.N Scott	Non – Executive Director	11yrs 11 months
G.J Buchanan	Non – Executive Director	4 months
A.L Hall	Non – Executive Director	3yrs 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 R.N Scott and Mr A.L Hall retired from the Board and were re-elected at the 2011 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 both the Company's founders give of their experience in the industry and have a financial interest as well as leveraging the broad experience in the mortgage lending industry of other directors on the board.

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.

Diversity Policy

The Group is committed to having an appropriate blend of diversity on the Board and in the Group's senior executive positions. The Board has established a policy regarding gender, age, ethnic and cultural diversity. The details of the policy are available on the Company's website.

The key elements of the diversity policy are as follows:

- Increased gender diversity on the Board and senior executive positions and throughout the Group, aiming for equal gender representation on a full-time equivalent basis on the Board by 30 June 2014 and in senior executive positions and the entire Group by 30 June 2015.
- Annual assessment of Board gender diversity objectives and performance against objectives by the Board and Nomination committee.

The Group's performance against the diversity policy objectives are as follows:

Gender representation	30 June 2012		30 June 2011	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	0%	100%	0%	100%
Key management personnel and other executive representation	29%	71%	14%	86%
Group representation	51%	49%	57%	43%

Gender diversity objectives	Progress Update as at 30 June 2012
1. Target the proportion of female employees within a range of 40-60% of total Group employees	The proportion of female employees stands at 51%, within the targeted range.
2. Target the percentage of women in management positions at a level of at least 25%	The percentage of women in management positions stands at 38%, above the target level
3. Target total female representation at executive level of two by June 2015	Female representation at executive level already stands at 2.
4. Aim to have one female director on the Board by June 2015	There were no female directors on the Board as at 30 June 2012

The Board will report its progress in achieving its objectives on an annual basis.

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;
- the remuneration framework for directors; and
- remuneration by gender

In accordance with its Charter, the Nomination and Remuneration Committee must have at least three members. 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.

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 and including 2010 amendments (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2012 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** 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** 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

	ASX Principle	Compliance
Principle 3:	**Promote ethical and responsible decision-making** 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: • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Comply Comply Comply
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Comply
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Comply
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Comply
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply
Principle 4:	**Safeguard integrity in financial reporting** 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: • consists only of non-executive directors • consist of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	Comply Not comply Comply 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** 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** 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 Principle	Compliance
Principle 7:	**Recognise and manage risk** 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** 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	The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	 Not comply Not comply Comply
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

Statement of Financial Position as at 30 June 2012

	Note	CONSOLIDATED		HOMELOANS LIMITED	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
ASSETS					
Cash and cash equivalents	8	20,084	20,960	8,537	7,650
Receivables	9	4,331	5,501	16,397	16,537
Loans and advances to customers	13	288,800	370,579	-	-
Other financial assets	14	46,345	37,212	34,168	26,044
Non-current asset held for sale	10	383	-	329	-
Investment in an associate	11	-	351	-	297
Plant and equipment	15	726	887	726	887
Investment in controlled entities	16	-	-	8,335	8,335
Goodwill	17	13,554	12,565	-	-
TOTAL ASSETS		374,223	448,055	68,492	59,750
LIABILITIES					
Payables	19	3,897	6,437	14,517	14,980
Interest-bearing liabilities	20	301,842	383,008	3,620	3,249
Other financial liabilities	21	18,966	14,588	9,851	6,825
Derivative financial liability	24	201	206	-	-
Lease incentives	22	95	176	95	176
Deferred income tax liabilities	5	6,793	4,764	4,946	2,796
Provisions	23	507	409	507	409
TOTAL LIABILITIES		332,301	409,588	33,536	28,435
NET ASSETS		41,922	38,467	34,956	31,315
EQUITY					
Issued capital	25	66,114	64,481	66,114	64,481
Reserves	25	816	816	816	816
Accumulated losses	25	(25,008)	(26,830)	(31,974)	(33,982)
TOTAL EQUITY		41,922	38,467	34,956	31,315

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 2012

	Note	CONSOLIDATED		HOMELOANS LIMITED	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest income	4(a)	31,904	40,157	3,574	3,439
Interest expense	4(d)	(21,446)	(28,171)	(1,042)	(975)
Net interest income		10,458	11,986	2,532	2,464
Fees and commission income	4(b)	31,791	32,940	22,330	23,603
Fees and commission expense	4(e)	(16,738)	(16,857)	(9,516)	(11,174)
Other operating income	4(c)	1,014	981	9,369	11,232
Operating expenses	4(f)	(15,544)	(17,982)	(15,401)	(17,892)
Share of profit of associate		310	182	310	182
Impairment (loss)/gain	4(g)	(167)	533	-	-
Gain on loans and advances recognised at amortised cost	4(i)	416	594	-	-
Profit before income tax		11,540	12,377	9,624	8,415
Income tax expense	5	(3,430)	(3,215)	(1,328)	(362)
Net profit after tax for the year		8,110	9,162	8,296	8,053
Total comprehensive income for the year attributable to members of Homeloans Limited		8,110	9,162	8,296	8,053
Basic earnings per share (cents per share)	6	7.67	8.96		
Diluted earnings per share (cents per share)	6	7.67	8.95		

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 2012

	Issued Capital $'000	Accumulated Losses $'000	Employee Option Reserve $'000	Total $'000
CONSOLIDATED				
At 1 July 2010	**98,283**	**(29,876)**	**816**	**69,223**
Profit for the year	-	9,162	-	9,162
Total comprehensive income	-	9,162	-	9,162
Exercise of options	485	-	-	485
Dividend reinvestment plan	1,383	-	-	1,383
Return of capital (1)	(35,670)	-	-	(35,670)
Equity dividends	-	(6,116)	-	(6,116)
At 1 July 2011	**64,481**	**(26,830)**	**816**	**38,467**
Profit for the year	-	8,110	-	8,110
Total comprehensive income	-	8,110	-	8,110
Exercise of options	21	-	-	21
Share buyback	(139)	-	-	(139)
Dividend reinvestment plan	1,751	-	-	1,751
Equity dividends	-	(6,288)	-	(6,288)
At 30 June 2012	**66,114**	**(25,008)**	**816**	**41,922**

	Issued Capital $'000	Accumulated Losses $'000	Employee Option Reserve $'000	Total $'000
PARENT				
At 1 July 2010	**98,283**	**(35,919)**	**816**	**63,180**
Profit for the year	-	8,053	-	8,053
Total comprehensive income	-	8,053	-	8,053
Exercise of options	485	-	-	485
Dividend reinvestment plan	1,383	-	-	1,383
Return of capital (1)	(35,670)	-	-	(35,670)
Equity dividends	-	(6,116)	-	(6,116)
At 1 July 2011	**64,481**	**(33,982)**	**816**	**31,315**
Profit for the year	-	8,296	-	8,296
Total comprehensive income	-	8,296	-	8,296
Exercise of options	21	-	-	21
Share buyback	(139)	-	-	(139)
Dividend reinvestment plan	1,751	-	-	1,751
Equity dividends	-	(6,288)	-	(6,288)
At 30 June 2012	**66,114**	**(31,974)**	**816**	**34,956**

(1) A return of capital of 35 cents per share was made to shareholders during the year ended 30 June 2011.

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 2012

	Note	CONSOLIDATED		HOMELOANS LIMITED	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash flows from operating activities					
Interest received		32,530	40,888	3,599	3,439
Interest paid		(23,774)	(27,022)	(1,040)	(970)
Loan fees and other income		29,882	31,082	27,173	37,265
Salaries and other expenses		(30,302)	(34,042)	(19,469)	(29,051)
(Repayments of)/proceeds from warehouse facility (1)		(65,333)	(81,380)	-	-
(Repayments to)/proceeds from bondholders (1)		(16,201)	(41,210)	-	-
Repayments from/net loans (advanced) from borrowers (1)		81,704	119,429	-	-
Income taxes paid		(1,958)	(3,593)	(1,958)	(3,593)
Net cash flows from operating activities	8	6,548	4,152	8,305	7,090
Cash flows from investing activities					
Purchase of plant and equipment		(182)	(299)	(182)	(299)
Acquisition of Refund	12	(2,950)	-	(2,950)	-
Net cash flows used in investing activities		(3,132)	(299)	(3,132)	(299)
Cash flows from financing activities					
Proceeds from issue of shares		21	485	21	485
Share buyback program		(139)	-	(139)	-
Proceeds from borrowings		1,925	967	1,925	967
Repayment of borrowings		(1,562)	(1,534)	(1,556)	(1,530)
Return of capital		-	(35,670)	-	(35,670)
Payment of dividends		(4,537)	(4,733)	(4,537)	(4,733)
Net cash flows used in financing activities		(4,292)	(40,485)	(4,286)	(40,481)
Net (decrease)/increase in cash and cash equivalents		(876)	(36,632)	887	(33,690)
Add: Opening cash and cash equivalents		20,960	57,592	7,650	41,340
Closing cash and cash equivalents	8	20,084	20,960	8,537	7,650

(1) 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 operating cashflows of $1,720,000 (2011: negative $2,627,000) during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been $8,268,000 (2011: $6,779,000.)

Notes to the Financial Statements for the year ended 30 June 2012

Note 1: Corporate Information

The financial report of Homeloans Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of directors on 25 September 2012.

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 the directors' report.

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.

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

(b) Statement of compliance

The financial report complies with Australian Accounting Standards 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. From 1 July 2011, the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or before 1 July 2011. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any new or amended Standards or Interpretations issued but not yet effective.

The following new and amended Standards and Interpretations, issued but not yet effective, have been identified as those which may impact the entity in the period of initial application.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).	1 January 2013 *	1 July 2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013 *	1 July 2013

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities,that are applying AASB 1053.	1 July 2013	1 July 2013
AASB 10	Consolidated Financial Statements	AASB 10 introduces a revised definition of control and establishes a single control model that applies to all entities. This Standard replaces AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 Consolidation – Special Purpose Entities and is required to be applied retrospectively.	1 January 2013	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates* as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities.*	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 *Fair Value Measurement.*	1 January 2013	1 July 2013

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-9	Amendments to Australian Accounting Standards - *Presentation of Items of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change resulting from the amendments relates to the Statement of Comprehensive Income and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements.	1 July 2012	1 July 2012
AASB 119	Employee Benefits	The main amendments to the standard relating to defined benefit plans are as follows :- • Elimination of the option to defer the recognition of actuarial gains and losses (the 'corridor method'); • Remeasurements (essentially actuarial gains and losses) to be presented in other comprehensive income; • Past service cost will be expensed when the plan amendments occur regardless of whether or not they are vested; and • Enhanced disclosures for Tier 1 entities. The distinction between short-term and other long-term employee benefits under the revised standard is now based on expected timing of settlement rather than employee entitlement. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognised only when the offer becomes legally binding and cannot be withdrawn.	1 January 2013	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	1 July 2013

The directors are in the process of determining the impact of the above new and amended accounting standards and interpretations.

* AASB ED 215 *Mandatory effective date of IFRS 9* proposes to defer the mandatory effective date of AASB 9 from annual periods beginning 1 January 2013 to annual periods beginning on or after 1 January 2015, with early application permitted. At the time of preparation, finalisation of ED 215 is still pending by the AASB. However, the IASB has deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with early application permitted.

(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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

(d) Business combinations

Business combinations (pre 1 July 2009)

The purchase method of accounting was used to account for all business combinations regardless of whether equity instruments or other assets are acquired.

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. The cumulative movements are adjusted against the carrying amount of the investment.

Any disposal of an investment in the associate is recognised through the Statement of Comprehensive Income, after taking the carrying value of the investment on disposal date and any expenses directly attributable into account.

(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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

(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.

(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 entity, 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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:

Origination and loan management business - Managed Loans

- 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 receivable is recognised as revenue for the services provided.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.

Origination of Non-managed Loans

- 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 perform 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 receivable is recognised as revenue for the services provided.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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

(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) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

(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 balance 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 3 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

(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 before 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 balance 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.

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 balance date.

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

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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 on initial recognition.

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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 balance 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 arise 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 judgments 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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.

Recognition of future trailing commission receivable

The recognition of the future trailing commission receivable on the Statement of Financial Position is an area of judgment due to the different recognition criteria existing within the accounting standards. This position will continue to be monitored in future accounting periods having regard to developments in the relevant accounting standards. In this respect, the Directors believe the accounting treatment adopted by the Group is consistent with the applicable accounting standards and is consistent with the treatment adopted in the prior year and by similar industry participants. The unrealised profit before tax resulting from the movement in future trailing commission assets and liabilities for the financial year ended 30 June 2012 was $1,954,000 (2011: $1,469,000).

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 Group 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 17.

Impairment losses on loans and advances

The Group 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.

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 2012	Year ended 30 June 2011
Weighted average loan life	4 years and 3 months	3 years and 9 months
Discount rate	12.0%	12.0%

Some changes were made to the prepayment rates during the period. If these changes had not been made, the net profit before tax result would have been lower by $1,095,000.

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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, and in accounting for transactions between reportable segments, 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 is not allocated to operating segments as it is not considered part of the core operations of any segment:

- Income tax

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Year ended 30 June 2012	Origination and Management $'000	Securitisation of Mortgages $'000	Total $'000
Revenue			
Interest Income	4,883	27,021	31,904
Fee and commission income	30,835	956	31,791
Other operating income	1,014	-	1,014
Total segment revenue from external	36,732	27,977	64,709
Inter-segment revenue	2,461	-	2,461
Total segment revenue	39,193	27,977	67,170
Inter-segment elimination			(2,461)
Total consolidated revenue			64,709
Result			
Segment results before impairment and finance costs	6,080	5,433	11,513
Impairment loss	-	(167)	(167)
Gain on loans and advances recognised at amortised cost	-	416	416
Finance costs	(222)	-	(222)
Segment results	5,858	5,682	11,540
Income tax expense			(3,430)
Net profit for the year			8,110
Assets and liabilities			
Segment assets (1)	77,650	296,573	374,223
Total assets			374,223
Segment liabilities (1)	25,404	299,616	325,020
Unallocated liabilities (tax balances)			7,281
Total liabilities			332,301
Other segment information			
Capital expenditure	182	-	182
Depreciation	343	-	343
Interest expense	1,963	19,483	21,446

(1) 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 2012 (continued)

Year ended 30 June 2011	Origination and Management $'000	Securitisation of Mortgages $'000	Total $'000
Revenue			
Interest Income	4,724	35,433	40,157
Fee and commission income	31,095	1,845	32,940
Other operating income	981	-	981
Total segment revenue from external	36,800	37,278	74,078
Inter-segment revenue	3,228	-	3,228
Total segment revenue	40,028	37,278	77,306
Inter-segment elimination			(3,228)
Total consolidated revenue			74,078
Result			
Segment results before impairment and finance costs	4,462	7,004	11,466
Impairment gain	-	533	533
Gain on loans and advances recognised at amortised cost	-	594	594
Finance costs	(216)	-	(216)
Segment results	4,246	8,131	12,377
Income tax expense			(3,215)
Net profit for the year			9,162
Assets and liabilities			
Segment assets (1)	69,724	378,331	448,055
Total assets			448,055
Segment liabilities (1)	21,286	383,242	404,528
Unallocated liabilities (tax balances)			5,060
Total liabilities			409,588
Other segment information			
Capital expenditure	299	-	299
Depreciation	423	-	423
Interest expense	1,793	26,378	28,171

(1) 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. All revenue is derived in and attributed to Australia and all non-current assets are located in Australia (the Group's country of domicile).

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 4: Revenues and Expenses

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
REVENUE				
(a) Interest income				
Interest received – other person/corporations	31,904	40,157	3,574	3,439
(b) Fees and commission income				
Mortgage origination income	9,734	11,094	6,298	8,223
Loan management fees	22,057	21,846	16,032	15,380
	31,791	32,940	22,330	23,603
(c) Other operating income				
Rental income	794	725	794	725
Management Fees – Wholly owned controlled entities	-	-	3,357	4,748
Dividend received from subsidiary	-	-	5,000	5,500
Other	220	256	218	259
	1,014	981	9,369	11,232
Total Revenue	64,709	74,078	35,273	38,274
EXPENSES				
(d) Interest expense				
Interest on other loans	222	216	222	216
Interest recognised on trailer commission payable	1,741	1,576	820	759
Interest payable to bondholders	3,005	4,147	-	-
Interest payable to warehouse facility provider	16,478	22,232	-	-
	21,446	28,171	1,042	975
(e) Fees and commission expense				
Mortgage origination expense	7,787	8,138	4,610	5,509
Loan management expense	8,951	8,719	4,906	5,665
	16,738	16,857	9,516	11,174

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

		CONSOLIDATED		HOMELOANS LIMITED	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
(f)	**Operating expenses**				
(i)	*General administrative expenses*	4,018	5,367	3,875	5,277
(ii)	*Employee benefits*				
	Wages & salaries	7,531	8,263	7,531	8,263
	Workers' compensation costs	12	26	12	26
	Annual leave provision	(90)	(27)	(90)	(27)
	Long service leave provision	18	3	18	3
	Employee incentive payments	426	518	426	518
	Payroll tax	501	680	501	680
	Other employee costs	838	761	838	761
		9,236	10,224	9,236	10,224
(iii)	*Depreciation consists of:*				
	Depreciation and amortisation of:				
	Plant and equipment	343	423	343	423
		343	423	343	423
(iv)	*Occupancy costs*	1,947	1,968	1,947	1,968
	Total Operating expenses	15,544	17,982	15,401	17,892
(g)	**Impairment (loss)/gain – loans and advances** [1]	(167)	533	-	-
(h)	**Gain on derivative financial liability classified as held for trading** [2]	5	221	-	-
(i)	**Gain on loans and advances recognised at amortised cost** [3]	416	594	-	-

(1) Impairment – loans and advances

An allowance for impairment is maintained against the mortgage loan receivables within the RMT Special Purpose Vehicles. In the current financial year, an impairment loss of $167,000 has been recognised which represents amounts written off during the year. In the 2011 financial year, an impairment gain of $533,000 was recognised and was measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries. Refer to Note 13 for further disclosure on allowance for impairment (loss)/gain.

(2) Gain on derivative financial liability classified as held for trading is included under Note (d) 'Interest expense'.

(3) Gain on loans and advances recognised at amortised cost.

The gain of $416,000 (2011: $594,000) 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 5: Income Tax

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
The major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
Current income tax charge	2,304	2,881	80	163
Adjustments in respect of current income tax of previous years	19	24	20	34
Benefits received from changes to the tax consolidation regime	-	(670)	-	(670)
Benefits received from previous unrecognised capital loss	(82)	-	(82)	-
Deferred income tax				
Relating to origination and reversal of temporary differences	1,189	980	1,310	835
Income tax expenses reported in the Statement of Comprehensive Income	3,430	3,215	1,328	362
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	11,540	12,377	9,624	8,415
At the Group's statutory income tax rate of 30% (2011: 30%)	3,462	3,713	2,887	2,524
Entertainment expenses	9	11	9	11
Difference in prior year tax (paid during the year)	19	24	20	34
Benefits received from capital loss	(82)	-	(82)	-
Other	22	137	(6)	113
Fully franked dividend received from subsidiary	-	-	(1,500)	(1,650)
Benefit received from changes to the tax consolidation regime	-	(670)	-	(670)
Income tax expense reported in the consolidated Statement of Comprehensive Income	3,430	3,215	1,328	362

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2012 $'000	2011 $'000	2012 $'000	2011 $'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	(120)	(170)	(50)	(70)
Lease incentives	-	-	-	(13)
Leased assets	-	-	-	(13)
Accrued income	(65)	(40)	25	(28)
Trailing commissions receivable	(13,904)	(11,169)	1,123	865
Deferred income tax liabilities	(14,089)	(11,379)		
Deferred tax assets				
Losses available for offset against future taxable income	263	517	254	225
Capital loss benefit recognised	82	-	(82)	-
Accrued expenses	190	238	48	362
Effective interest adjustments on loans and advances	32	40	8	12
Allowance for impairment losses – loans and advances to customers	614	633	19	318
Derivative instrument	60	62	2	66
Lease incentives	29	53	25	24
Provisions	292	290	(2)	7
Capital items	45	72	27	(37)
Trailing commissions payable	5,689	4,381	(537)	(409)
Benefit received from changes to the tax consolidation regime	-	329	329	(329)
Deferred income tax assets	7,296	6,615		
Net deferred income tax liabilities	(6,793)	(4,764)		
Deferred tax expense			1,189	980
Reconciliation of net deferred tax liabilities:	**2012 $'000**	**2011 $'000**		
Opening balance as of 1 July	**(4,764)**	**(3,784)**		
Tax income during the year recognised in profit or loss	(1,189)	(980)		
Deferred taxes acquired in business combinations	(840)	-		
Closing balance as at 30 June	**(6,793)**	**(4,764)**		

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
PARENT				
Deferred tax liabilities				
NPV future trailing commissions receivable	(10,251)	(7,818)	821	797
Lease incentives	-	-	-	(13)
Leased assets	-	-	-	(13)
Accrued income	(65)	(40)	25	(28)
Deferred income tax liabilities	(10,316)	(7,858)		
Deferred tax assets				
Losses available for offset against future profits	263	517	254	225
Capital loss benefit recognised	82	-	(82)	-
NPV future trailing commissions payable	2,959	2,052	(136)	(154)
Accrued expenses	190	237	47	357
Lease incentives	29	53	25	24
Provisions	1,802	1,802	-	7
Capital items	45	72	27	(38)
Benefit received from changes to the tax consolidation regime	-	329	329	(329)
Deferred income tax assets	5,370	5,062		
Net deferred income tax liabilities	(4,946)	(2,796)		
Deferred tax expense			1,310	835
Reconciliation of net deferred tax liabilities:	**2012 $'000**	**2011 $'000**		
Opening balance as of 1 July	**(2,796)**	**(1,961)**		
Tax income during the year recognised in profit or loss	(1,310)	(835)		
Deferred taxes acquired in business combinations	(840)	-		
Closing balance as at 30 June	**(4,946)**	**(2,796)**		

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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	
	2012 $'000	2011 $'000
Total increase to tax payable to Homeloans Limited from subsidiaries	2,223	2,718
Total increase to intercompany assets of Homeloans Limited	2,223	2,718

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	
	Year ended 30 June 2012 $'000	Year ended 30 June 2011 $'000
Net profit attributable to ordinary equity holders of the parent	8,110	9,162
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	8,110	9,162

	No. of shares 30 June 2012	No. of shares 30 June 2011
Weighted average number of ordinary shares (excluding reserved shares) for basic and diluted earnings per share	105,778,058	102,244,033
Effect of dilution: Share options	-	90,774
Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS	105,778,058	102,334,807

There were no options outstanding at 30 June 2012.

During the period between the reporting date and the date of completion of the financial statements, no 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 7: Dividends Paid and Proposed

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Declared and paid during the year:				
Franked dividends:				
Fully franked final dividend on ordinary shares for 2011 - 3.5 cents per share (2010: 3.5 cents)	3,628	3,566	3,628	3,566
Fully franked interim dividend on ordinary shares for 2012 - 2.5 cents per share (2011: 2.5 cents)	2,660	2,550	2,660	2,550
	6,288	6,116	6,288	6,116
Proposed and not recognised				
Dividends on ordinary shares:				
Final franked dividend for 2012 – 3.5 cents (2011: 3.5 cents)	3,733	3,629	3,733	3,629

Franking credit balance

	HOMELOANS LIMITED	
	2012 $'000	2011 $'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% (2011: 30%)	2,631	3,369
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	487	296
	3,118	3,665
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	(1,600)	(1,557)
	1,518	2,108

The tax rate at which dividends have been franked is 30% (2011: 30%)

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 8: Cash and Cash Equivalents

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'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	8,620	7,776	8,537	7,650
RMT Cash Collections Account (1)	9,751	11,010	-	-
Restricted Cash (2)	1,713	2,174	-	-
	20,084	20,960	8,537	7,650

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.

(1) 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.

(2) Cash held in trust as collateral for the borrowing facilities with Westpac Banking Corporation ("WBC").

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Reconciliation of net profit after tax to net cash flows from operating activities				
Net profit after tax	8,110	9,162	8,296	8,053
Adjustments for:				
Impairment loss/(gain)	167	(533)	-	-
Depreciation	343	423	343	423
Dividends received from associate	186	65	186	65
Share of profit in associate – net of tax	(217)	(127)	(217)	(127)
Changes in assets and liabilities:				
Decrease/(increase) in receivables	(2,583)	1,147	(2,605)	3,034
Decrease in derivative financial liabilities/assets	(5)	(220)	-	-
Movement in impairment provision	(398)	17	-	-
Decrease in due to borrowers	82,010	119,675	-	-
Decrease in due to bondholders	(16,201)	(41,210)	-	-
Decrease in due to warehouse facility	(65,333)	(81,380)	-	-
Increase in deferred tax liabilities	1,189	980	1,310	835
(Increase)/decrease in current tax liability	191	(1,412)	191	(1,412)
Increase in trade and other payables	(1,009)	(2,204)	(286)	(3,550)
(Decrease) /increase in provisions	98	(231)	98	(231)
Net cash from operating activities	6,548	4,152	7,316	7,090

Disclosure of financing facilities

Refer to note 20.

Disclosure of non-cash financing and investing activities

There were no non-cash financing activities.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 9: Receivables

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fees receivables				
Non-related parties [1]	2,648	2,399	1,905	1,679
Related parties [2] - wholly owned controlled entity	-	-	14,110	14,484
	2,648	2,399	16,015	16,163
Accrued interest [3]	810	1,144	-	-
Prepayments [4]	470	514	350	334
Last days collections receivable [5]	375	1,399	-	-
Other	28	45	32	40
	4,331	5,501	16,397	16,537

Terms and conditions relating to the above financial instruments:

(1) Fees receivable are non-interest-bearing and on settlement terms of between 4 to 60 days.

(2) Details of the terms and conditions of related party receivables are set out in note 28. No impairment was recognised in the current or prior financial year. The balance is considered fully collectible.

(3) Accrued interest is due within 30 days.

(4) Prepayments are non-interest-bearing and due in the ordinary course of business between 30 days and 12 months.

(5) 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 26 for fair value.

Note 10: Non-Current Asset Held For Sale

Non-Current Asset Held for Sale

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Non-Current Asset held for sale [1]	383	-	329	-
	383	-	329	-

(1) The Group's 26.5% (2011: 26.5%) interest in National Mortgage Brokers Pty Ltd ("nMB") was reclassified as a non-current asset held for sale at 30 June 2012. A sale agreement was executed on 18th July 2012.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 11: Investment in an Associate

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Investment in National Mortgage Brokers Pty Limited [1]	-	351	-	297
	-	351	-	297
Carrying amount at the beginning of the year	351	289	297	235
Share of associates net profit after tax	218	127	218	127
Dividends received by the Group	(186)	(65)	(186)	(65)
Carrying amount of the investment	383	351	329	297
Investment reclassed as non-current asset held for sale [1]	(383)	-	(329)	-
	-	351	-	297

(1) The Group's 26.5% (2011: 26.5%) interest in National Mortgage Brokers Pty Limited ("nMB") was disposed of on 18th July 2012.See Note 10.

Note 12: Business Combination

On 8th June 2012, the Group acquired the rights to the loan book and copies of all records of the business of Refund Home Loans Pty Ltd (Administrator Appointed) ("Refund") for a total cash consideration of $2,950,000. The acquisition presents a strong opportunity for the Group to expand its distribution footprint and brand presence through the network of Refund's loan writers who have entered into agreements to become Homeloans-branded brokers.

As the acquisition was made close to year end, the Group has left the acquisition accounting open pending further adjustment to the fair values of net assets acquired. The initial accounting for the combination will be finalised within the next financial year. The provisional fair value of the identifiable assets and liabilities of Refund as at the date of acquisition were detailed as follows:

	Recognised on acquisition $000
Other financial assets - trailing commissions receivable	5,373
Other financial liabilities - trailing commissions payable	(2,572)
Deferred tax liability	(840)
Fair value of identifiable net assets acquired	**1,961**

Goodwill

Provisional Goodwill was recognised as a result of the acquisition as follows:

	$'000
Purchase consideration transferred	2,950
Fair value of identifiable net assets acquired	(1,961)
Provisional Goodwill arising on acquisition	**989**

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

From the date of acquisition the contribution of Refund to the revenue and net profit before tax of the group was not material given the timing of the acquisition was so near to year end. It is not possible to quantify the impact that the acquisition of the business from Refund would have had on the consolidated statement of comprehensive income had it occurred at the beginning of the reporting period as Refund was under administration during this period and separate books and records were not available.

The goodwill arising on consolidation is attributable to various factors including the value of synergies and the assembled sales force.

In a separate transaction, certain Refund loan writers entered into broker agreements with Homeloans. Under the terms of these agreements, brokers are entitled to contingent payments due and payable by 31 January 2013 and 31 January 2014, upon the achievement of specified volume targets. These contingent payments have not been included in the cost of the business combination as management has assessed that the payments are of the nature of a future volume bonus and therefore do not form part of the acquisition costs.

Acquisition-related costs

Acquisition costs of $292,000 related to external success fees and legal and other administration fees included under Operating expenses in the Statement of Comprehensive Income.

Note 13: Loans and Advances to Customers

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Gross loans and advances to customers	290,847	372,690	-	-
Less: Allowance for impairment loss	(2,047)	(2,111)	-	-
	288,800	370,579	-	-

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		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Less than 1 year	78,589	110,767	-	-
1 – 2 years	57,261	77,266	-	-
2 – 3 years	41,742	54,101	-	-
3 – 4 years	30,443	38,013	-	-
4 – 5 years	22,213	26,793	-	-
> 5 years	60,599	65,750	-	-
Total	**290,847**	**372,690**	**-**	**-**

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Allowance for impairment loss - opening	2,111	3,170	-	-
Increased/(decreased) impairment charges	167	(533)	-	-
Amounts written off	(231)	(526)	-	-
Allowance for impairment loss - closing	2,047	2,111	-	-
Collective allowance	685	1,095	-	-
Specific allowance	1,362	1,016	-	-
	2,047	2,111	-	-

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.

The following table provides analysis of the balance of loans that are past due but not considered impaired:

Loans past due but not impaired	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
1 – 3 months	3,842	3,544	-	-
3 – 6 months	1,265	2,505	-	-
> 6 months	957	2,829	-	-
Total	**6,064**	**8,878**	**-**	**-**

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.

Loans with payments outstanding less than one month are more likely to be of a one off nature and are generally rectified by the borrower within a short period of time – i.e. within the same month. Loans in this category are less likely to be representative of loans with underlying repayment problems.

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Carrying amount of impaired loans	2,421	1,616	-	-
Less: Expected recoverable amount	(1,059)	(600)	-	-
Impairment loss	**1,362**	**1,016**	**-**	**-**

Refer to note 26 for fair value disclosure for loans and advances to customers.

Collateral repossessed

As at 30 June 2012 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 combined loan balance of the properties is $412,901 and the estimated value of the properties is between $500,000 and $600,000.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 14: Other Financial Assets

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Future trailing commissions receivable [1]				
- Current	18,713	15,298	14,677	11,293
- Non-current	27,632	21,914	19,491	14,751
	46,345	37,212	34,168	26,044

Terms and conditions relating to the above financial instruments:

(1) Fair value of future trailing commission receivable is recognised on the origination of managed and non-managed mortgage loans at inception. 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 15: Plant And Equipment

	CONSOLIDATED Plant and equipment $'000	HOMELOANS LIMITED Plant and equipment $'000
Year ended 30 June 2012		
At 1 July 2011, net of accumulated depreciation and impairment	887	887
Additions	182	182
Depreciation charge for the year	(343)	(343)
At 30 June 2012, net of accumulated depreciation and impairment	726	726
At 30 June 2012		
Cost	6,520	6,520
Accumulated depreciation and impairment	(5,794)	(5,794)
Net carrying amount	726	726
Year ended 30 June 2011		
At 1 July 2010, net of accumulated depreciation and impairment	1,011	1,011
Additions	299	299
Depreciation charge for the year	(423)	(423)
At 30 June 2011, net of accumulated depreciation and impairment	887	887
At 30 June 2011		
Cost	6,338	6,338
Accumulated depreciation and impairment	(5,451)	(5,451)
Net carrying amount	887	887

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 16: Investment in Controlled Entities

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Investment at cost in controlled entities (Note 28)	-	-	21,331	21,331
Impairment allowance	-	-	(12,996)	(12,996)
	-	-	8,335	8,335

Note 17: Goodwill

	CONSOLIDATED $'000	HOMELOANS LIMITED $'000
Year ended 30 June 2012		
At 1 July 2011, net of impairment	12,565	-
Add: Goodwill arising on the acquisition of Refund (Refer to Note 12)	989	-
At 30 June 2012, net of impairment	13,554	-
At 30 June 2012		
Cost (gross carrying amount)	29,931	-
Less: Impairment loss	(16,377)	-
Net carrying amount	13,554	-
Year ended 30 June 2011		
At 1 July 2010, net of impairment	12,565	-
At 30 June 2011, net of impairment	12,565	-
At 30 June 2011		
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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

The assumed growth rate in settled loans over the period covered by the forecast is on average 10% (2011: 8%). 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 12% to 32% depending on types of loans and lenders (2011: 14% to 30%) and are based on actual experience. A terminal value of 8 times (2011: 8 times) was used for cash flows beyond 10 years reflecting industry averages.

The discount rate applied to cash flow projections is 12.5% (2011:12.5%) 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 2012.

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

CONSOLIDATED	Origination and Management		Securitisation of Mortgages		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Carrying amount of goodwill	13,554	12,565	-	-	13,554	12,565

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2012 and 30 June 2011

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 (2011: 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 10% to 8% would not cause the recoverable amount of the unit to fall short of its carrying value.

Note 18: 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 no members of this plan as all options have been fully exercised as at 30 June 2012.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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:

	2012		2011	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at the beginning of the year	125,000	0.21	1,177,500	0.50
Expired during the year	(25,000)	0.21	-	-
Exercised during the year	(100,000)	0.21	(1,052,500)	0.46
Outstanding at the end of the year	-	-	125,000	0.21
Exercisable at the end of the year	-	-	125,000	0.21

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 2011:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price $	Weighted average share price (1) $
62,500	15 February 2007	29 December 2008	29 December 2011	0.21	0.64
62,500	15 February 2007	29 December 2009	29 December 2011	0.21	0.64
125,000				0.21	0.64

(1) Average share price on the date of grant.

Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2012 (2011: 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 2012	100,000	0.21	0.64	0.59
30 June 2011	1,052,500	0.21 - 0.56	0.51	0.89

Options held as at the end of the year:

There were no options held by employees or any other related parties as at 30 June 2012.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 19: Payables

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade payables (1)	434	542	438	546
Payable to related parties:				
- controlled entity (2)	-	-	11,916	11,916
Accrued commissions (3)	523	478	523	478
Sundry creditors and accruals (4)	1,697	2,258	1,153	1,744
Current income tax payable	487	296	487	296
Interest payable (5)	756	2,863	-	-
	3,897	6,437	14,517	14,980

Terms and conditions relating to the above financial instruments:

(1) Trade payables are non-interest bearing and are normally settled on 30 day terms.

(2) Details of the terms and conditions of related party payables are set out in note 28.

(3) Accrued commissions are non-interest bearing and are payable between 30 and 90 days.

(4) Sundry creditors and accruals are non-interest bearing and are normally settled on 30 day terms.

(5) Interest payable is non-interest bearing and is payable within 30 days.

Refer to note 26 for fair value disclosure.

Note 20: Interest-Bearing Liabilities

		CONSOLIDATED		HOMELOANS LIMITED	
	Maturity	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Bank loans					
Bank Overdraft (1)		-	-	-	-
Warehouse facility (2)	30/06/2013	244,040	309,373	-	-
Non-bank loans					
Bonds (3)	2037	54,180	70,381	-	-
Loans from funders (4)	2012 - 2017	3,622	3,254	3,620	3,249
		301,842	383,008	3,620	3,249

Terms and conditions relating to the above financial instruments:

(1) The Company has a bank overdraft of $900,000 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.

(2) 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 5.88% (2011: 6.21%). 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. The RMT Warehouse facility is a rolling 12 month facility provided by Westpac Banking Corporation ("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 2013. The terms of the extension, which is effective from July 2012, includes an increase in the funding margin payable to the warehouse provider. The warehouse limit was reduced to $250,000,000 in April 2012 (the limit as at 30 June 2011 was $350,000,000). The RMT warehouse facility is supported by cash collateral reserves. The amount required to be held in cash collateral reserves 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, the Company has a reasonable period of time to agree a satisfactory arrangement with the warehouse provider.

(3) 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 4.65% (2011: 4.98%).

(4) 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 6.47% (2011: 6.13%).

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in note 26.

Financing facilities available

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Total Facilities				
- bank overdraft	900	900	900	900
- RMT warehouse facility (refer note 20 [(2)])	250,000	350,000	-	-
	250,900	350,900	900	900
Facilities used at reporting date				
- bank overdraft	-	-	-	-
- RMT warehouse facility (refer note 20 [(2)])	244,040	309,373	-	-
	244,040	309,373	-	-
Facilities unused at reporting date				
- bank overdraft	900	900	900	900
- RMT warehouse facility (refer note 20 [(2)])	5,960	40,627	-	-
	6,860	41,527	900	900

Assets pledged as security

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
ASSETS				
First mortgage				
Loans and advances to customers	290,552	372,256	-	-
Floating charge				
Cash assets	11,464	13,184	-	-
Receivables	1,185	2,543	-	-
Total assets pledged as security	303,201	387,983	-	-

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 21: Other Financial Liabilities

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Future trailing commissions payable (1)				
- Current	7,313	6,124	4,261	2,990
- Non-current	11,653	8,464	5,590	3,835
	18,966	14,588	9,851	6,825

Terms and conditions relating to the above financial instruments:

(1) 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. Assumptions used in the assessment of the fair value are disclosed under note 2 (dd). Refer to note 26 for fair value disclosure.

Note 22: Lease Incentives

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Lease incentives (1)	95	176	95	176

Terms and conditions relating to the lease incentive:

(1) Net rental incentives were received 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.

Note 23: Provisions

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Long service leave	507	409	507	409
	507	409	507	409

Note 24: Derivative Financial Liability

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Derivative financial liability classified as held for trading (1)	201	206	-	-

(1) The Group uses interest rate swaps for interest risk management purposes. Some of the loans and advances within the RMT SPV's 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 — the fair value is calculated using quoted prices in active markets.
Level 2 — the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 — the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

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 ($201,000) (2011: ($206,000)) 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		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Less than 1 year	8,572	4,602	-	-
1 – 2 years	2,194	5,694	-	-
2 – 3 years	916	457	-	-
3 – 4 years	98	355	-	-
4 – 5 years	60	98	-	-
Total	**11,840**	**11,206**	**-**	**-**

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 $5,000 (2011: income of $221,000).

Refer to note 26 for fair value disclosure.

Note 25: Issued Capital and Reserves

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Ordinary shares issued and fully paid	66,114	64,481	66,114	64,481
	66,114	64,481	66,114	64,481

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

	CONSOLIDATED		HOMELOANS LIMITED	
	No of shares ('000's)	$'000	No of shares ('000's)	$'000
Movement in ordinary shares on issue				
At 30 June 2011	103,788	64,481	103,788	64,481
Issued on dividends reinvested	2,989	1,751	2,989	1,751
Issued on options exercised	100	21	100	21
Shares bought back during the year	(234)	(139)	(234)	(139)
At 30 June 2012	106,643	66,114	106,643	66,114

Share options

There were no options over ordinary shares granted during the financial year (2011: Nil). At the end of the year there were no unissued ordinary shares in respect of which options were outstanding (2011:125,000 options). For more information refer to Note 18.

100,000 shares were issued on options exercised during the year (See Note 18).

Dividend Reinvestment Plan

2,989,168 ordinary shares were issued on dividends reinvested as part of the Company's Dividend Reinvestment Plan.

Share buybacks

234,175 shares were bought back during the year under the existing share buyback program.

Capital Management Plan

The Group's capital comprises share capital, reserves less accumulated losses amounting to $41,922,000 at 30 June 2012 (2011: $38,467,000). The primary objectives of the Group's capital management is 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, issue capital securities or perform share buybacks.

The Company is also subject to an externally imposed capital requirement by the Australian Securities & Investments Commission (ASIC). In accordance with Condition 4 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 2012 and the year ended 30 June 2011.

Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance 1 July	(26,830)	(29,876)	(33,982)	(35,919)
Net profit for the year	8,110	9,162	8,296	8,053
Dividends	(6,288)	(6,116)	(6,288)	(6,116)
Balance 30 June	(25,008)	(26,830)	(31,974)	(33,982)

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Employee Option Reserve
Movements in the employee option reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance 1 July	816	816	816	816
Charge for the period	-	-	-	-
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 26: 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 targets 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 forecasts 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 13 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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
ASSETS				
Cash assets	20,084	20,960	8,537	7,650
Receivables	4,331	5,501	16,397	16,537
Loans and advances to customers (1)	288,800	370,579	-	-
Other financial assets	46,345	37,212	34,168	26,044
Total	359,560	434,252	59,102	50,231

(1) Please refer to Note 20 (2) for information relating to the 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 "AA- / A1" equivalent 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 the 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 20, 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 for the Group to meet its corporate debts and other payment obligations as and when they fall due. The Board receives a summary of actual monthly cashflow movements, together with rolling three month cashflow forecasts, each month. In addition, the Board receives periodic cashflow forecasts over medium 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 2013 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility. Developments across the global economy in recent months have again created volatility and a degree of uncertainty within credit markets. It should be noted that the warehouse facility is structured so that in the highly unlikely event 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 2012 (continued)

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

CONSOLIDATED	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 2012							
Financial Liabilities							
Trade payables	3,897	3,897	-	-	-	-	3,897
Interest bearing liabilities							
- RMT Warehouse facility	244,040	39,561	215,352	-	-	-	254,913
- Bonds	54,180	9,687	8,090	21,062	10,290	12,324	61,453
- Loans from funders	3,622	483	475	1,724	1,537	-	4,219
Trailing commissions payable	18,966	4,376	3,677	9,625	4,736	4,351	26,765
Derivative financial liability	201	40	76	78	11	-	205
Total	324,906	58,044	227,670	32,489	16,574	16,675	351,452

CONSOLIDATED	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 2011							
Financial Liabilities							
Trade payables	6,437	6,437	-	-	-	-	6,437
Interest bearing liabilities							
- RMT Warehouse facility	309,373	54,436	271,282	-	-	-	325,718
- Bonds	70,381	16,347	12,883	29,452	11,413	9,072	79,167
- Loans from funders	3,254	449	424	1,544	1,358	-	3,775
Trailing commissions payable	14,588	3,405	3,128	7,352	3,306	2,684	19,875
Derivative financial liability	206	8	10	194	4	-	216
Total	404,239	81,082	287,727	38,542	16,081	11,756	435,188

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 2012							
Financial Liabilities							
Trade and other payables	14,517	14,517	-	-	-	-	14,517
Interest bearing liabilities							
- Loans from funders	3,620	482	473	1,724	1,537	-	4,216
Trailing commissions payable	9,851	2,487	2,024	4,863	1,992	1,325	12,691
Total	27,988	17,486	2,497	6,587	3,529	1,325	31,424

Notes to the Financial Statements for the year ended 30 June 2012 (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 2011							
Financial Liabilities							
Trade and other payables	14,980	14,980	-	-	-	-	14,980
Interest bearing liabilities							
- Loans from funders	3,249	448	423	1,541	1,358	-	3,770
Trailing commissions payable	6,825	1,754	1,411	3,285	1,268	785	8,503
Total	25,054	17,182	1,834	4,826	2,626	785	27,253

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.

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial Assets				
Cash and cash equivalents	20,084	20,960	8,537	7,650
Loans and advances to customers	276,960	359,373	-	-
Derivative financial instrument (notional value)	11,840	11,206	-	-
	308,884	391,539	8,537	7,650
Financial liabilities				
Interest-bearing liabilities - floating	(301,842)	(383,008)	(3,620)	(3,249)
	(301,842)	(383,008)	(3,620)	(3,249)
Net Exposures	7,042	8,531	4,917	4,401

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.

Movement in variable	2012		2011	
	Net Profit / (Loss) after tax $'000	Total Equity $'000	Net Profit / (Loss) after tax $'000	Total Equity $'000
Consolidated				
+100bps	49	49	60	60
- 100bps	(49)	(49)	(60)	(60)
Parent				
+100bps	34	34	31	31
- 100bps	(34)	(34)	(31)	(31)

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 14 and note 21 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.

Movement in variable	2012		2011	
	Net Profit / (Loss) after tax $'000	Total Equity $'000	Net Profit / (Loss) after tax $'000	Total Equity $'000
Consolidated				
+10%	(1,605)	(1,605)	(1,242)	(1,242)
- 10%	1,825	1,825	1,438	1,438
Parent				
+10%	(1,451)	(1,451)	(1,075)	(1,075)
- 10%	1,678	1,678	1,249	1,249

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Consolidated				
Financial assets				
Cash	20,084	20,960	20,084	20,960
Receivables	4,331	5,501	4,331	5,501
Loans and advances to customers	288,800	370,579	288,800	370,579
Other financial assets	46,345	37,212	46,345	37,212
Financial liabilities				
Payables	3,897	6,437	3,897	6,437
Interest bearing liabilities	301,842	383,008	301,842	383,008
Other financial liabilities	19,167	14,794	19,167	14,794

	Carrying amount		Fair value	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Parent				
Financial assets				
Cash	8,537	7,650	8,537	7,650
Receivables	16,397	16,537	16,397	16,537
Other financial assets	34,168	26,044	34,168	26,044
Financial liabilities				
Payables	14,517	14,980	14,517	14,980
Interest bearing liabilities	3,620	3,249	3,620	3,249
Other financial liabilities	9,851	6,825	9,851	6,825

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 27: Commitments and Contingencies

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases on its office space requirements. Operating leases have an average remaining lease term of 1.6 years (2011: 2.3 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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Within one year	1,792	1,741	1,792	1,741
After one year but not more than five years	1,266	2,700	1,266	2,700
More than five years	-	-	-	-
	3,058	4,441	3,058	4,441

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 remaining lease term of 1.2 years (2011: 2.2 years)

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Within one year	812	783	812	783
After one year but not more than five years	138	950	138	950
More than five years	-	-	-	-
	950	1,733	950	1,733

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 28: 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 2012 $'000	% Equity interest 2011 $'000	Investment 2012 $'000	Investment 2011 $'000
Parent entity					
Homeloans Limited	Australia				
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%	-	-
Residential Mortgage Trust Warehouse Trust No.1 (1)	Australia	100%	100%	-	-
RMT Securitisation Trust No.5 (1)	Australia	100%	100%	-	-
RMT Securitisation Trust No.6 (1)	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 (1)	Australia	100%	100%	-	-
Auspak Financial Services Pty Ltd	Australia	100%	100%	1,466	1,466
				8,335	8,335

(1) – Capital unit is held by a third party.

Notes to the Financial Statements for the year ended 30 June 2012 (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 outstanding balances at year-end, refer to Note 9 and Note 19).

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	2012	2,460,572	-	4,480,161	-
	2011	3,227,874	-	3,718,371	-
Access Network Management Pty Ltd	2012	896,831	-	614,382	8,209,726
	2011	1,519,455	-	1,490,305	8,209,726
Independent Mortgage Corporation Pty Ltd	2012	-	-	9,937,104	-
	2011	-	-	10,004,376	-
Residential Mortgage Trusts	2012	-	-	-	3,705,795
	2011	-	-	-	3,705,795
Auspak Financial Services Pty Limited	2012	-	-	-	921,820
	2011	-	-	-	729,132
Other related parties:					
National Mortgage Brokers Pty Ltd *(formerly Mosaic Financial Services Pty Ltd)* (1)	2012	-	-	328,506	-
	2011	-	-	297,105	-
Advantedge Financial Services *(formerly Challenger Mortgage Management)*	2012	5,904,588	-	-	-
	2011	6,225,613	-	-	-

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

Other related parties

(1) The Group's 26.5% interest in National Mortgage Brokers Pty Limited ("nMB") was disposed of on 18th July 2012 and has been disclosed as a Non-Current Asset held for sale under Note 10.

Note 29: Events After Balance Date

On 27th August, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2012 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2012 financial statements. The final dividend is payable on 2nd October 2012.

On 18th July 2012, the Group disposed of its 26.5% holding in National Mortgage Brokers Pty Limited for $1,550,000.

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.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Note 30: Auditors' Remuneration

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $	2011 $	2012 $	2011 $
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	252,556	242,256	216,300	206,000
• a compliance audit or review of the financial report of the entity and any other entity in the consolidated group	7,725	7,725	7,725	7,725
	260,281	249,981	224,025	213,725
Amounts received or due and receivable by Ernst & Young (Australia) for non-audit services:				
• a review of the operations of the entity and fees associated with the acquisition of the Refund business	178,910	-	178,910	-
	439,191	249,981	402,935	213,725

Note 31: Directors And Executive Disclosures

Compensation by Category: Key Management Personnel of the Company and the Group

	CONSOLIDATED		HOMELOANS LIMITED	
	2012 $	2011 $	2012 $	2011 $
Short-Term	1,483,563	1,566,109	1,483,563	1,566,109
Post Employment	124,781	132,735	124,781	132,735
Other Long-Term	28,500	78,500	28,500	78,500
Termination Benefits	80,000	-	80,000	-
Share-based Payment	-	-	-	-
	1,716,844	1,777,344	1,716,844	1,777,344

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Option holdings of Key Management Personnel of the Company and the Group (Consolidated)

	Balance at beginning of period 1 July 11	Granted as remuneration	Options exercised	Net Change Other	Balance at end of period 30 June 12	Vested at 30 June 2012		
						Total	Exercisable	Not Exercisable
30 June 2012								
Executives								
L.McDonald	-	-	-	-	-	-	-	-
A.Carn (1)	-	-	-	-	-	-	-	-
C.Matthews (2)	-	-	-	-	-	-	-	-
I.Parkes (3)	-	-	-	-	-	-	-	-
S.McWilliam	-	-	-	-	-	-	-	-
G. Mitchell	25,000	-	(25,000)	-	-	-	-	-
Total	25,000	-	(25,000)	-	-	-	-	-

	Balance at beginning of period 1 July 10	Granted as remuneration	Options exercised	Net Change Other	Balance at end of period 30 June 11	Vested at 30 June 2011		
						Total	Exercisable	Not Exercisable
30 June 2011								
Executives								
L.McDonald	45,000	-	(45,000)	-	-	-	-	-
A.Carn (1)	-	-	-	-	-	-	-	-
C.Matthews (2)	-	-	-	-	-	-	-	-
I.Parkes (3)	-	-	-	-	-	-	-	-
S.McWilliam	12,500	-	(12,500)	-	-	-	-	-
G. Mitchell	25,000	-	-	-	25,000	25,000	25,000	-
Total	82,500	-	(57,500)	-	25,000	25,000	25,000	-

(1) A. Carn resigned as General Manager – Third Party Distribution on 11th November 2011.

(2) C. Matthews resigned as Chief Financial Officer on 29th February 2012.

(3) I. Parkes was appointed Chief Financial Officer on 14th May 2012.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Shareholdings of Key Management Personnel of the Company and the Group

Shares held in Homeloans Limited (number)

	Balance 01 July 2011 Ord.	Granted as remuneration Ord.	On exercise of Options Ord.	Net Change Other Ord.	Balance 30 June 2012 Ord.
30 June 2012					
Directors					
T.A.Holmes	12,635,082	-	-	211,942	12,847,024
R.P.Salmon	12,269,494	-	-	207,955	12,477,449
R.N.Scott	2,104,622	-	-	51,494	2,156,116
B.R.Benari (1)	-	-	-	-	-
A.L. Hall	-	-	-	-	-
G.J.Buchanan (2)	-	-	-	-	-
Executives					
L.McDonald	50,000	-	-	(50,000)	-
S.McWilliam	50,000	-	-	-	50,000
G. Mitchell	455	-	25,000	(24,952)	503
I. Parkes (3)	-	-	-	-	-
Total	27,109,653	-	25,000	396,439	27,531,092

Shares held in Homeloans Limited (number)

	Balance 01 July 2010 Ord.	Granted as remuneration Ord.	On exercise of Options Ord.	Net Change Other Ord.	Balance 30 June 2011 Ord.
30 June 2011					
Directors					
T.A.Holmes	12,476,795	-	-	158,287	12,635,082
R.P.Salmon	12,114,186	-	-	155,308	12,269,494
R.N.Scott	2,078,954	-	-	25,668	2,104,622
B.R.Benari (1)	-	-	-	-	-
A.L. Hall	-	-	-	-	-
G.J.Buchanan (2)	-	-	-	-	-
Executives					
L.McDonald	50,000	-	45,000	(45,000)	50,000
S.McWilliam	37,500	-	12,500	-	50,000
G. Mitchell	455	-	-	-	455
I. Parkes (3)	-	-	-	-	-
Total	26,757,890	-	57,500	294,263	27,109,653

(1) B. Benari resigned as a non-executive director on 17th February 2012.

(2) G. Buchanan was appointed as a non-executive director on 17th February 2012.

(3) I. Parkes was appointed Chief Financial Officer on 14th May 2012.

Notes to the Financial Statements for the year ended 30 June 2012 (continued)

Loans to Key Management Personnel 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 #
2012	1,167	-	89	-	1,152	1
2011	3,182	-	113	-	1,167	2

(ii) Details of key management personnel with loans 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	1,167	-	89	-	1,152	1,175

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 2012 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 2012

On behalf of the Board

Timothy A. Holmes
Executive Chairman

Perth, 25 September 2012

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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 statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b) the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor’s Independence Declaration.

ERNST & YOUNG

Opinion

In our opinion:

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

  i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2012 and of their performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Homeloans Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
25 September 2012

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 the Annual Report.

The information has been prepared as at 17 September 2012

(a) Substantial Shareholder details:

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	23,730,769
National Australia Bank Ltd	18,983,030
Redbrook Nominees Pty Ltd Acres Holdings Pty Ltd	15,206,384
Timothy Alastair Holmes Bond Street Custodians Ltd (TA Holmes A/c) Tico Pty Ltd (TA Holmes Family A/c) Bond Street Custodian Ltd (TA Holmes Superfund A/c) Bond Street Custodian Ltd (Carol Mary Holmes A/c) Joanna Mary Holmes Tiffany Eliza Farrar Holmes Lucy Caroline Holmes	12,847,024
Robert Peter Cockburn Salmon Peterlyn Pty Ltd (Salmon Family Fund A/c) Peterly Pty Ltd (Salmon Superfund A/c)	12,477,449

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

There are 665 holders of Ordinary Shares.

(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	83
1,001 – 5,000	280
5,001 – 10,000	97
10,001 – 100,000	166
100,001 and over	39
TOTAL	**665**

There are 40 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 Number of Shares held	Shares % holding
Challenger Group Holdings Ltd	23,730,769	22.29
National Australia Bank Ltd	18,983,030	17.83
Redbrook Nominees Pty Ltd	13,709,503	12.88
Peterlyn Pty Ltd	12,112,856	11.38
Tico Pty Ltd	8,123,944	7.63
Hartley Phillips Securities Pty Ltd	4,612,318	4.33
Bond Street Custodians Ltd (V73544A/c)	4,157,016	3.91
AJA Investments Pty Ltd	3,446,312	3.24
Gemtrick Pty Ltd	2,168,803	2.03
Ferber Holdings Pty Ltd	1,661,497	1.56
Acres Holdings Pty Ltd	1,496,881	1.41
RBC Investor Services Australia Nominees Pty Ltd	971,740	0.91
Daisson Holdings Pty Ltd (Lonie Super A/c)	507,712	0.48
Carpenter Nominees Pty Ltd	494,619	0.46
Bond Street, Custodians Ltd (V12870 A/c)	435,900	0.41
JAMAC Holdings Pty Ltd	429,955	0.40
Mr Robert Salmon	364,593	0.34
NSR Investments Pty Ltd (NSR Super Fund A/c)	350,000	0.33
Beneficial Home Loans Pty Ltd	300,626	0.28
Ms Kym Carter	226,048	0.21
TOTAL	**98,284,122**	**92.31**

(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 Buyback

The Company engages in the on-market share buyback of the Company’s ordinary shares from time to time as part of the long term capital management strategy aimed at maximising shareholder value.