

Homeloans

Annual Report 2015

Corporate Information

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 27.

Directors

Robert Scott (Appointed Chairman on 17th November 2014)
Timothy Holmes (Ceased to be Chairman and Director on 17th November 2014)
Robert Salmon (Non-Executive Director)
Michael Starkey (Non-Executive Director)

Company Secretary

Jennifer Murray

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Bankers

Westpac Banking Corporation
Westpac Place
275 Kent Street
Sydney NSW 2000

Auditors

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

Table of Contents

Homeloans Annual Report 2015

Contents

Chairman's Report	3
Chief Executive Officer's Year In Review	5
Directors' Report	7
Auditor's Independence Declaration to the Directors of Homeloans Limited	28
Corporate Governance Statement	29
Statement of Financial Position as at 30 June 2015	30
Statement of Comprehensive Income for the year ended 30 June 2015	31
Statement of Changes in Equity for the year ended 30 June 2015	32
Statement of Cash Flows for the year ended 30 June 2015	33
Notes to the Financial Statements for the year ended 30 June 2015	34
Directors' Declaration	89
Independent Audit Report	90
Investor Information	92

Chairman's Report



On behalf of your Board, I am pleased to present the 2015 Annual Report for Homeloans Limited.

For the year ended 30 June 2015 (FY2015), Homeloans delivered another solid financial result, recording a statutory net profit after tax of \$5.6 million, down from the previous financial year result of \$6.2 million. Investment in distribution staff and expansion through acquisition assisted the Company in continuing to grow settlements and funds under administration during the period.

Total settlements increased by 14.9% on the previous year and, importantly, branded loan settlements, where a mortgage manager margin is received, increased by 23.7% to \$1 billion for the year. Total funds under administration, including the securitisation portfolio, increased to \$8.1 billion as at 30 June 2015, from \$7.6 billion as at 30 June 2014. These loan books continue to generate strong cash flows and underpin Homeloans' result.

The Board is pleased to declare a fully franked final dividend of 2.0 cents per share, bringing the total dividend to 4.0 cents per share for the year.

Australian mortgage market

Over the past financial year, the Australian home lending environment was particularly buoyant, aided by relatively low levels of interest rates and growth in real estate prices in many markets across the nation, despite consumer and business confidence levels remaining low and general economic conditions remaining flat.

Competition in the mortgage market is ever present, particularly around lower loan-to-valuation ranges and larger loan sizes. Towards the end of the financial year, there was a move by many lenders in the market to address concentrations of particular types of mortgage lending, such as investment property loans. The Company's diverse range of balance sheet and non-balance sheet funder relationships, in addition to our national footprint provides the flexibility to adapt to these changes as they play out in the broader market for home finance.

Expansion and growth

During FY2015, the Company focused on expanding our Third Party distribution capabilities in the eastern states of Australia, through the acquisition of Queensland-based Barnes Mortgage Management Pty Ltd ("Barnes") in February 2015. The acquisition of Barnes, a mortgage manager with similar products and funding partners to Homeloans, was a good strategic fit, providing additional exposure to new broker groups on the east coast. We continue to be supported by strong operating cash flows and are well placed to meet ongoing funding requirements, including future business development and acquisition opportunities.

Homeloans continues to benefit from having access to a diversified funding base. This enables Homeloans to adapt and improve our product offering to meet the changing needs and demands of the broader market, and to ensure we cover a full range of mortgage customer solutions. Supplementing the existing wholesale funding arrangements, Homeloans continues to write loans under the Residential Mortgage Trust program, which provides further opportunity in terms of both settlement volume and margin growth.

Our focus remains unchanged on providing a solid and competitive suite of products which, when delivered in combination with our existing strong third-party broker relationships, will support the growth in settlements and profitability.

Going Forward

We expect general market conditions to remain positive and the Company remains confident that the positive trend in submission and settlement activity in the second half of the financial year will continue into FY2016. The stable cash rate outlook, which remains at historically low levels, and the buoyant property markets in key capital cities is likely to have the biggest impact on the mortgage market over the next 12 months. The rebalancing of many lenders' exposures to particular segments of the market, such as investment lending, will continue to evolve. However, Homeloans diversified funding platforms provide an opportunity to grow our business and differentiate ourselves in the market in the face of these changing pricing and policy dynamics.

Our strategy remains unchanged – that is, to grow and diversify the business. This includes continuously assessing and enhancing product and service offerings across Homeloans' third-party broker partners and direct retail networks, as well as pursuing the expansion of our broker and direct retail distribution footprint, either organically or via acquisition.

The company continued to improve its national brand presence through another successful year sponsoring the Perth Scorchers in the 2014 T20 Big Bash League. The ongoing relationship with the Scorchers provides an effective platform for national exposure of the Homeloans brand, particularly during the T20 competition.

On behalf of the Board, I would like to thank our management team and all our staff for their enthusiasm and effort over the past year. Thank you also to our key stakeholders, business partners and shareholders for their ongoing support. I would also like to thank my fellow Directors for their contribution and support throughout the year.

In closing, I wish to acknowledge the sad passing of our longstanding Chairman and dear friend, Tim Holmes. Tim was a founding director of the Company and his leadership and vision were an inspiration to us all.

A handwritten signature in black ink, appearing to read 'Robert Scott', with a stylized flourish at the end.

Robert Scott
Chairman

Chief Executive Officer's - Year in Review



Financial Results

Homeloans recorded a statutory net profit after tax ("NPAT") of \$5.6 million for the year ended 30 June 2015 ("FY2015"), and normalised NPAT after adjusting for internal restructuring costs and other non-cash items was \$5.9 million. The Board has declared a fully franked final dividend of 2.0 cents per share, taking the full year dividend to 4.0 cents per share.

The Company experienced strong lending growth during FY2015, in particular within its core business of Homeloans branded loans, whose settlements increased 23.7% for the year to \$1 billion. In total, with the inclusion of non-branded loan originations, new business volumes increased by 14.9% in FY2015.

The growth in branded loan settlements was a direct result of the Company's investment in sales distribution, brand development and funder partnerships, combined with favourable market conditions.

The second half of the year also benefited from the acquisition of Barnes Mortgage Management Pty Ltd ("Barnes") in February 2015. This added \$0.5 million in Funds under management and access to a broader group of third party brokers through the Barnes brand. The integration of the Barnes business is materially complete and settlements through this new channel are in line with expectations, with further growth anticipated in FY2016.

Lending Volume Growth

The combination of investing in sales force capacity, the acquisition of Barnes in the second half of the year and a strong residential lending market positively impacted on settlements of Homeloans branded loans, which increased by 23.7% in the year. See Chart A for year-on-year settlements. The value of the portfolio of loans written through all channels is shown in Chart B.

Distribution

Homeloans' distribution capabilities to reach Australian borrowers can be classified under two distinct distribution channels:

1. Third party, whereby our mortgage broker partners distribute loans to the end customer; and
2. Retail distribution to customers via our mobile lenders, sales offices and internal loan writers.

The volume of home loans originated by mortgage brokers continues to grow, and this channel now represents more than 50% of all new loans acquired in Australia. It is our view that this sector will continue to grow, and it therefore remains of key importance to Homeloans' distribution strategy.

One of our key areas of focus during the year was to grow and deepen the relationships within the third party market. This involved optimising relationships with our top supporting and high potential brokers. As well as investing efforts into nurturing these partnerships, we made a commitment to enhance productivity by increasing front line staffing levels and reviewing our on-boarding processes. We also introduced more targeted marketing activities to brokers via traditional and digital means, including social media.

As a result of these initiatives, total branded settlement volumes through the third party channel increased by 27.8% during FY2015. Settlements from our top 100 brokers were 34.9% higher than in the previous period.

We also concentrated on the eastern seaboard market, which represents approximately 80% of new loan originations Australia-wide. Pleasingly, these efforts resulted in annual growth of 27.5% across New South Wales, Victoria and Queensland, including a 50.6% increase in NSW alone.

Chart A Homeloans Branded Loan Settlements (\$m)

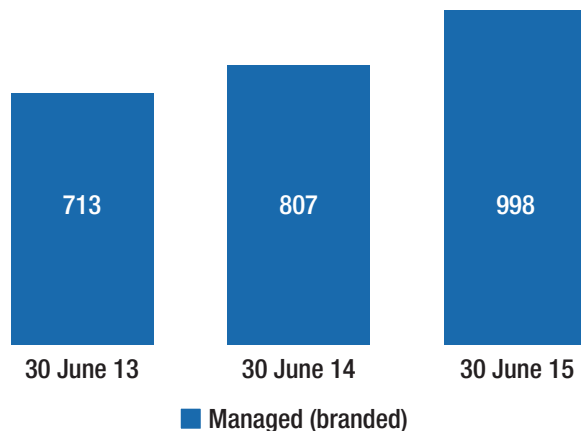
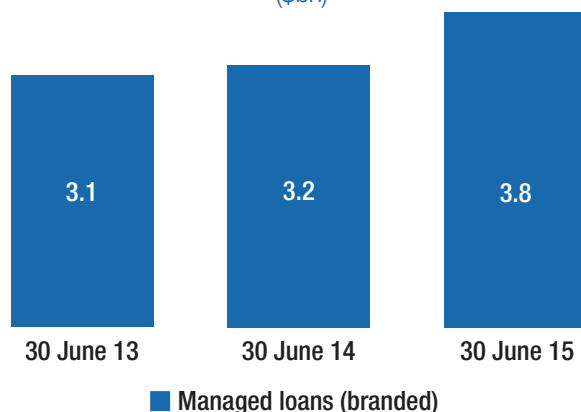


Chart B Homeloans Branded Fund Under Management (\$bn)



Brand Development

We have continued to focus on building equity in the Homeloans brand. This has involved raising the profile of the brand, as well as encouraging a positive experience and advocacy among customers and brokers.

We continued our relationship with the Perth Scorchers in FY2015, following a successful sponsorship during the T20 Big Bash League competition in the previous year. This arrangement has provided significant national exposure, with the Homeloans brand being prominently displayed on player apparel and ground signage. Perth Scorchers matches reached a cumulative television audience of 9.6 million viewers in the BBL104 competition (2014/15), and despite the Scorchers being Perth-based, 86% of the television audience was located outside of Western Australia. As well as raising brand recognition and recall among prospective clients, the prominence of the Homeloans brand assists brokers in recommending Homeloans to their clients. Our association with the Perth Scorchers has also assisted in fostering broker relationships via hospitality and on-field experience opportunities.



For the first time this year, Homeloans was also proud to work with the McGrath Foundation and Breast Cancer Care to support Australians impacted by breast cancer. The Buying Time campaign raised over \$100,000.

During the year we continued our relationship with Australian Rules footballer, Matthew Pavlich. As our brand ambassador, Matthew's profile is used to promote the organisation, and he conducts a number of formal and informal broker engagement events.

In addition to brand building activities, Homeloans has focused on the experience that borrowers and brokers have in dealing with us. A positive experience creates a positive affinity with the brand and higher propensity to advocate Homeloans.

Funding and operations

During the year, work continued on a major project to replace and upgrade IT systems that form the Company's core mortgage management platform. This project will further improve functionality for our broker partners, as well as efficiency across a variety of Company functions. This project is on track for implementation in the 2016 financial year.

Homeloans maintained its strong relationships with our broad base of wholesale funding partners, which include Bendigo and Adelaide Bank, Advantedge (division of National Australia Bank), Pepper Home Loans, Resimac and Macquarie Group. The diversity of funding relationships ensures we are able to constantly adapt our products, working with our funding partners, to maintain and strengthen our positioning in the mortgage market.

Homeloans' proprietary funding line, Residential Mortgage Trust ("RMT"), continued to fund a portion of new loan settlements during the year. We continued to roll over our warehouse funding line with Westpac and maintain regular discussions regarding the future utilisation of the facility and the products offered through this funding line. The RMT loan portfolio balance at year end was in line with the prior year, as new originations matched run off of existing loans in the portfolio.



We continue to be supported by strong operating cash flows emanating from the underlying annuity stream derived from the loan book under management, as well as the value of new settlements. We undertook the Barnes acquisition utilising a new corporate debt facility, which is the only corporate debt outside of the RMT warehouse facilities.

Financial Year 2016 and beyond

Homeloans remains well placed to achieve the Company's strategic objective of growing and diversifying the business in FY2016 and to capitalise on emerging opportunities in the market. Importantly, Homeloans remains in a strong position, with the positive trend in submission and settlement activity in H2 FY2015 continuing into FY2016.

Recent industry changes have seen lenders moving to differentiate on policy and pricing, which is expected to benefit Homeloans with its diversified funding base. The Company's wide range of balance sheet and non-balance sheet funder relationships, broad distribution capabilities and national footprint provide Homeloans with flexibility and certainty at a time of broader industry transition. In addition, Homeloans continues to assess further opportunities, both organic and inorganic, that are aligned with the Company's strategic direction and complementary with existing operations.

In closing, I would like to thank our employees and stakeholders for their contribution and commitment over the past 12 months. I also thank our shareholders for their continued support. I look forward to a solid FY2016 for the Homeloans business.

Scott McWilliam
Chief Executive Officer

Homeloans Board of Directors

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2015.

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



Robert Norman Scott (Chairman – appointed on 17th November 2014)

Appointed Chairman on 17 November 2014. Rob was previously a non-executive director of Homeloans Limited from 9 November 2000. Rob is a Chartered Accountant with over 36 years experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995. Rob is chairman of the company's audit and risk management committee and is a member of the company's nomination and remuneration committee.

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

- RTG Mining INC (Appointed 31 March 2013) - Listed on the ASX 30 June 2014
- Sandfire Resources NL (Appointed 30 July 2010)
- Lonestar Resources Limited *formerly Amadeus Energy Ltd* (Appointed 30 October 1996)

Rob ceased to be a chairman of the following listed companies in the prior year:

- Manas Resources Limited (Resigned 31 March 2014)

Rob was formerly a director of the following listed companies:

- CGA Mining Limited (Resigned 16 January 2013)
- Neptune Marine Services Limited (Resigned 30 March 2012)



Timothy Alastair Holmes (Ceased to be Chairman and Director on 17th November 2014)

Tim passed away on 17 November 2014. He had been Chairman since 1 July 2003 and had been previously appointed as a director on 9 November 2000. Tim had also performed the duties of acting Managing Director from 1 October 2008 to 31 December 2012. He had 46 years experience in the finance and banking industry, was a Fellow of the Australian Institute of Company Directors, and a former Honorary Consul of Austria in WA. He was also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry. He had 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 45 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.

DIRECTORS' REPORT (CONTINUED)



Michael Starkey (Non-Executive Director)

Michael is the General Manager, Deposits for National Australia Bank ('NAB'). Before joining NAB, Michael was Managing Partner of the Melbourne Office for Corporate Value Associates (CVA) a boutique strategy consulting firm. During his 13 year career at CVA, he advised banking clients on a range of topics including distribution design, pricing segmentation, portfolio composition and growth strategy. Michael was a co-founder of iSelect Limited, a successful insurance comparison service. He holds a Bachelor of Science and Bachelor of Engineering from Monash University, and an MBA from Harvard University. Michael has not held any other Directorships of listed companies over the past three years.

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 32 years experience in providing corporate secretarial services for both public and proprietary companies. She was previously the Senior Manager, Corporate Secretarial Services for Perth based Gooding Partners Chartered Accountants. Jennifer joined Homeloans Limited as an employee on 11 March 2013.

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
R P Salmon	10,977,449	-
R N Scott	2,156,116	-
M Starkey	-	-

DIVIDENDS

	Cents	\$'000
Final dividend as declared on 21 August 2015:		
Final dividend for 2015		
- on ordinary shares (fully franked)	2.0	2,107
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (fully franked)	2.0	2,099
Final dividend for 2014		
- on ordinary shares (fully franked)	2.0	2,102

DIRECTORS' REPORT (CONTINUED)

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, FAI First Mortgage Pty Ltd and Barnes Mortgage Management Pty Ltd. As of the balance date, the Company has mortgage origination and management agreements with Bendigo and Adelaide Bank Limited, Advantedge Financial Services Limited, Macquarie Securitisation Limited, Origin Mortgage Management Services, ING Bank (Australia) Limited, Pepper Homeloans Pty Ltd, Resimac Limited, Residential Mortgage Trust and other institutions.

OPERATING AND FINANCIAL REVIEW

Homeloans is a non-bank lender, mortgage management service provider and mortgage broker with a nationwide presence that was established 30 years ago. As a non bank lender and mortgage manager the company sells residential mortgage loans through external third party mortgage brokers as well as its own branded mortgage broker relationships. 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 \$5,608,000 down from the previous financial year result of \$6,205,000. On a normalised basis, net profit after tax was \$5,868,000 down on the comparable prior year result of \$6,278,000 (See Table 1 on page 10).

The Group has achieved strong growth in settlements and completed a value accretive acquisition delivering a sound full year financial result with a 2 cents per share final dividend maintained. The Group's segment results reflect the two key elements of profitability for the company. The Origination and Management segment incorporates both Third Party Broker and Direct sales channels and reflects the revenue and expense associated with new loan originations and the ongoing trail which is accounted for on a Net Present Value ('NPV') basis (see Note 2 (i) on page 40). The Securitisation of Mortgages segment represents the net interest margin earned on loans funded through the Group's RMT. On an operating segment basis (see Table 2 on page 11) revenue from the Origination and Management was up 11.2% to \$44,372,000 whilst the Securitisation of Mortgages segment revenue was down 10.1% to \$12,010,000. The securitised loan portfolio is down marginally to \$200,438,000 (\$203,405,000 as at 30 June 2014). This has stabilised in the financial year as a result of new loans being written via the trust which are now offsetting those in run off.

The Group acquired Queensland-based Barnes Mortgage Management Pty Ltd ("Barnes") in February 2015. Barnes had Funds under Management of \$0.5 billion as at 31 December 2014. The acquisition of Barnes, a mortgage manager with similar products and funders to Homeloans, has provided an opportunity to expand the Group's exposure on the east coast. The integration of the Barnes business is materially complete and volumes through this channel are in line with expectations.

Total lending volumes were up by 14.9% on the previous financial year. Branded loan settlements, where a mortgage manager margin is received, accounted for the majority of this, increasing 23.7% to \$1 billion as a result of the Group's continued investment in distribution sales force capacity and product launches through the year. Loan balances under administration by the Group were up to \$8.1 billion from \$7.6 billion as at 30 June

DIRECTORS' REPORT (CONTINUED)

2014. The Group has continued to grow its branded loan book, achieving growth of 20.4% to \$3.6 billion as at 30 June 2015, reflecting ongoing focus on providing a competitive offering, retention activities and the Barnes acquisition.

Net interest income generated from the Group's securitised loan portfolio was down from \$8,404,000 to \$7,849,000 as the balance of this portfolio begins to stabilise.

Total net fee and commission income was \$15,336,000, down 3.1% from \$14,882,000. Net loan origination income was down \$319,000 or 10.7% reflecting increased upfront origination costs absorbed, whilst net management income was up \$773,000 or 6.5% reflecting volume growth and margin improvement.

Total operating expenses of \$15,959,000 were up 4.8% from the corresponding period of \$15,229,000. After allowing for one-off restructuring and corporate advice costs of \$515,000 (2014: \$308,000), underlying expenses were up 3.5% on the previous financial year reflecting investment in distribution resources and footprint.

Impairment gains relating to the Group's RMT loan portfolio were \$406,000 and reflected net recoveries made in the period on impaired loans within the RMT portfolio.

Table 1: UNAUDITED NON-IFRS INFORMATION

	Consolidated ⁽¹⁾	
	2015 \$'000	2014 \$'000
Normalised Profit after Tax		
Statutory Profit after tax	5,608	6,205
Add:		
Restructuring costs and corporate advice costs (pre-tax)	515	308
Less:		
RMT cashflow re-estimation benefit (pre - tax)	(143)	(204)
Tax effect of the above	(112)	(31)
Normalised profit after tax	5,868	6,278

1) 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 2016. The Group re-commenced writing new loans into the warehouse facility in the 2013 financial year and continued to write a proportion of new business volumes through the warehouse facility. 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.

Following a strong H2 FY2015, the Group remains well positioned to achieve its strategic objective of growing and diversifying the business in the year ahead. The Group expects residential lending activity to remain strong going into the first quarter of FY2016 and the Company's diverse range of balance sheet and non-balance sheet funder relationships, combined with a national footprint, provides opportunity and flexibility at a time when broader industry fragmentation has seen the market commence the transition towards pricing for risk. This is evidenced through recent pricing and policy changes to investment loan products in the market.

The Board is confident the environment, combined with the investment in distribution capacity and the Homeloans brand, will continue to present opportunities for the Group to continue to grow settlement volumes in the year ahead which is vital to growing profitability. The Group will also continue to pursue the expansion of the broker and direct retail distribution footprint, actively assessing inorganic growth opportunities across a range of complementary financial and property service providers.

DIRECTORS' REPORT (CONTINUED)

The Company continues to be supported by strong operating cash flows emanating from underlying earnings. The result reflects the underlying value of the ongoing annuity stream derived from the loan books under management as well as the value of new settlements. Both of these factors support Homeloans' cash flow position.

Table 2: UNAUDITED NON-IFRS INFORMATION

SEGMENT RESULTS

Summarised operating results are as follows:

Operating segments	2015 \$'000	2014 \$'000	% change
<i>Origination and Management</i>			
Revenues ⁽¹⁾	44,372	39,905	11.2%
Results ⁽¹⁾	5,776	6,106	(5.4%)
<i>Securitisation of Mortgages</i>			
Revenues	12,010	13,355	(10.1%)
Results	2,243	2,788	(19.6%)
Group Revenue	56,382	53,260	5.9%
Group Profit before income tax expense	8,019	8,894	(9.8%)

1) Segment information has been presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

Shareholder Returns

Basic earnings per share on a statutory basis was 5.33 cents.

	2015	2014	2013	2012	2011 ⁽⁴⁾
Basic earnings per share (cents)	5.33	5.84	7.26	7.67	8.96
Return on assets (%) ⁽¹⁾	2.0%	2.1%	2.3%	2.0%	1.8%
Return on equity (%) ⁽²⁾	13.3%	14.7%	17.9%	20.2%	20.9%
Dividend payout ratio (%) ⁽³⁾	75.0%	85.5%	82.7%	78.9%	67.5%

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) 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 10 – Consolidated Financial Statements, the parent company exercises control over the special purpose entity, Residential Mortgage Trust (RMT), and therefore significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.
- 2) Return on equity is calculated by taking the net profit after tax for the year and dividing by the average total equity.
- 3) Dividend Payout Ratio is calculated by dividing dividends declared from net profit after tax for the year by the net profit after tax.
- 4) A return of capital of 35 cents per share was made during the year ended 30 June 2011.

DIRECTORS' REPORT (CONTINUED)

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 2015 of \$1,482,000 (2014: Decrease of \$3,377,000).

Net operating cash inflow of \$3,902,000 (2014: \$6,020,000) 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 positive \$1,613,000 (2014: positive movement of \$1,750,000).

The Group maintains sufficient capital reserves to meet ongoing funding requirements. The Residential Mortgage Trust has a warehouse facility of \$200,000,000 as at 30 June 2015 (2014: \$200,000,000) drawn to \$181,740,000 at 30 June 2015 (2014: \$176,252,000).

Asset and capital structure

Profile of Debts	2015 \$'000	2014 \$'000
The profile of the Group's debt finance is as follows:		
Bank loans – secured	181,740	176,252
Westpac Loan Facility	2,505	-
Due to bondholders	23,560	31,701
Loans from funders	1,249	1,593
Lease payable	97	-
	209,151	209,546

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

Capital Expenditure

There has been a decrease in cash due to the purchase of equipment during the year ended 30 June 2015 of \$172,000 compared to \$659,000 in the year ended 30 June 2014.

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 and Risk Management 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 Chief Executive Officer 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.

DIRECTORS' REPORT (CONTINUED)

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 21st August 2015, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2015 of 2.0 cents per share, fully franked. The dividend has not been provided for in the 30 June 2015 financial statements. The final dividend is payable on 5th October 2015.

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

Information as to the likely developments in the operations of the Group is set out in the Operating and Financial Review above.

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 2015, there were no unissued ordinary shares under options (2014: nil).

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.

SHARE RIGHTS

Unissued shares

As at 30 June 2015, there were 2,001,444 unissued ordinary shares under rights (2014: 854,216). 295,500 shares were issued subsequent to the balance date.

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.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

DIRECTORS' REPORT (CONTINUED)

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 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 Chief Executive Officer, the executive management team and other senior managers of the Group.

Details of Key Management Personnel

Directors

R.N.Scott	Chairman – Appointed 17 th November 2014
T.A.Holmes	Ceased to be Chairman and Director on 17 th November 2014
R.P.Salmon	Director (Non-Executive)
M. Starkey	Director (Non-Executive)

Key Management Personnel

S.McWilliam	Chief Executive Officer
I.Parkes	Chief Financial Officer
R.Hair	General Manager – Sales
G.Mitchell	General Manager – Sales (resigned 6 th June 2014)

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 executives 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. Details of company performance and shareholder returns are discussed in Table 5 on page 24 of this report.

DIRECTORS' REPORT (CONTINUED)

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer 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 2015 and 30 June 2014 is detailed in Table 1 on page 21.

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.

Employee Rights Plan

The Employee Rights Plan was approved at the 2012 Annual General Meeting. In August 2013, the Board allocated share rights, under the Plan as part of the short term incentive program (STI).

The Board allocated share rights during the 2014 and 2015 financial years, under the Plan as part of the long term incentive program (LTI). LTI awards are made annually to executives in order to align remuneration with the creation of shareholder value over the long-term. As such, LTI awards are only made to executives and other key talent who have an impact on the Group's performance against the relevant long-term performance measure.

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 remuneration consultant was used in the financial year ended 30 June 2015.

DIRECTORS' REPORT (CONTINUED)

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each executive by the Nomination and Remuneration Committee. Table 1 on page 21 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 21.

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 and there are no pre-determined maximum possible values of award under the STI scheme. In assessing the value of an STI award to be granted the Board will give consideration to the contribution of the action being rewarded to the success of the Group. Payments are made in the following reporting period and are usually delivered as a cash bonus plus a deferred share component.

All executives are required to defer part (usually one-quarter) of the annual STI earned into Homeloans Limited equity. Deferred STI is delivered in the form of share rights subject to a one year vesting period. The deferred STI is forfeited if the individual resigns or is terminated for cause during the vesting period.

There have not been any changes to the STI grants during the financial year.

DIRECTORS' REPORT (CONTINUED)

STI Bonus for 2015 financial year

Cash component

The Nomination and Remuneration Committee determined the STI payments for the 2015 financial year in August 2015. The STI cash bonus for the 2015 financial year is \$382,500, which includes \$195,000 for the Key Management Personnel, and will vest and be paid in the 2016 financial year.

Deferred component

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2015 financial year in August 2015. The deferred STI was granted on 1 July 2014 in the form of share rights and will vest on 1 September 2016 subject to continuing employment. The fair value of the rights granted was \$177,613 which includes \$90,107 for the Key Management Personnel. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 2 on page 22.

STI Bonus for 2014 financial year

Cash component

The Nomination and Remuneration Committee determined the STI payments for the 2014 financial year in August 2014. The STI cash bonus for the 2014 financial year was \$308,625, which includes \$134,250 for the Key Management Personnel, and was paid in the 2015 financial year.

Deferred component

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2014 financial year in August 2014. The deferred STI was issued in the form of share rights and will vest on 1 September 2015 subject to continuing employment. The fair value of the rights granted was \$96,383 which includes \$41,894 for the Key Management Personnel. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 2 on page 22.

Variable remuneration — Long term incentive (LTI)

Objective

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

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

Structure

LTI grants to executives are most commonly delivered in the form of options or share rights, but may take other forms, including cash payments. LTI and deferred STI awards to executives are made under the employee share option plan and the employee rights plan.

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.

In the case of share rights awarded, these are issued annually and vest over varying periods and are subject to specific company and or individual performance measures or on-going service requirements. They usually cover a period up to three years from the date of awarding the share rights.

There have not been any changes to the LTI grants during the financial year.

DIRECTORS' REPORT (CONTINUED)

LTI Rights for the 2015 financial year – Retention plan

During the financial year, the Board awarded a grant of 292,553 share rights to the Key Management Personnel of the Group. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded to retain key executives and have a fair value of \$152,672. Accordingly, the vesting conditions are subject to continued employment with no performance hurdles. 42,553 share rights will vest on 31 December 2015 with 83,333 share rights vesting on 17 April 2016, a further 83,333 vesting on 17 April 2017 and a final 83,334 vesting on 17 April 2018 as shown in Table 3 on page 22.

LTI Rights for the 2015 financial year - Performance

During the financial year, the Board awarded a grant of 712,499 share rights to the Key Management Personnel and executive of the Group, which includes 437,499 share rights to the Key Management Personnel. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded at a fair value of \$206,625 as at 30 June 2015 and are subject to varying vesting conditions.

50% of the LTI share rights is subject to a performance condition measured by the compounding annual growth rate ("CAGR") of the total shareholder return ("TSR") of the Group while the other 50% of the share rights is subject to a performance condition measured at the Company's performance against the ASX Small Ordinaries Index. TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares. These performance criteria were selected as they align executive remunerations with the creation of shareholder wealth.

The CAGR and performance against the ASX Small Ordinaries Index components were further split into three equal tranches.

- Tranche 1 is tested at 31 December 2015. If the performance condition is not satisfied, any share rights that remain unvested will be tested again at 31 December 2016 and if it is still not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2017.
- Tranche 2 is tested at 31 December 2016. If the performance condition is not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2017.
- Tranche 3 is tested at 31 December 2017. If the performance condition is not satisfied, it will lapse.

The proportion of share rights that will vest under the performance criteria is determined as below:

Table 1:

CAGR in TSR performance level	Percentage of share rights vesting
Less than 10%	0%
10%	50%
Greater than 10% and less than 15%	Percentage of vesting increases on a straight line basis
15% or more	100%

Table 2:

ASX Small Ordinaries Index	Percentage of share rights vesting
TSR below Small Ordinaries Index's TSR	0%
TSR equal to Small Ordinaries Index's TSR	50%
TSR outperform Small Ordinaries Index's TSR by less than 25%	An additional 2% vests for each 1% above
TSR outperforms Small Ordinaries Index's TSR by 25% or more	100%

If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 4 on page 23.

DIRECTORS' REPORT (CONTINUED)

LTI Rights for the 2014 financial year – Retention plan

During the 2014 financial year, the Board awarded a grant of 190,696 share rights to the Key Management Personnel of the Group. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded to retain key executives and have a fair value of \$142,848. The vesting conditions are subject to continued employment with no performance hurdles. The share rights will vest on 30 June 2015 and 31 December 2015. If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 3 on page 22.

LTI Rights for the 2014 financial year - Performance

During the 2014 financial year, the Board awarded a grant of 476,782 share rights to the Key Management Personnel and executive of the Group, which includes 277,744 share rights to the Key Management Personnel. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded at a fair value of \$175,465 as at 30 June 2014 and are subject to varying vesting conditions.

50% of the LTI share rights is subject to a performance condition measured by the compounding annual growth rate ("CAGR") of the total shareholder return ("TSR") of the Group while the other 50% of the share rights is subject to a performance condition measured at the Company's performance against the ASX Small Ordinaries Index. TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares. These performance criteria were selected as they align executive remunerations with the creation of shareholder wealth.

The CAGR and performance against the ASX Small Ordinaries Index components were further split into three equal tranches.

- Tranche 1 was tested at 31 December 2014. As the performance condition was not satisfied, any share rights that remain unvested will be tested again at 31 December 2015 and if it is still not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2016.
- Tranche 2 is tested at 31 December 2015. If the performance condition is not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2016.
- Tranche 3 is tested at 31 December 2016. If the performance condition is not satisfied, it will lapse.

The proportion of share rights that will vest under the performance criteria is determined as below:

Table 1:

CAGR in TSR performance level	Percentage of share rights vesting
Less than 10%	0%
10%	50%
Greater than 10% and less than 15%	Percentage of vesting increases on a straight line basis
15% or more	100%

Table 2:

ASX Small Ordinaries Index	Percentage of share rights vesting
TSR below Small Ordinaries Index's TSR	0%
TSR equal to Small Ordinaries Index's TSR	50%
TSR outperform Small Ordinaries Index's TSR by less than 25%	An additional 2% vests for each 1% above
TSR outperforms Small Ordinaries Index's TSR by 25% or more	100%

If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 4 on page 23.

No options were granted during the year.

DIRECTORS' REPORT (CONTINUED)

Employment contracts

Chief Executive Officer

The role of Chief Executive Officer is currently occupied by Scott McWilliam.

During the financial year, in his role as Chief Executive Officer, Mr. McWilliam was paid \$342,295.

Under the conditions of employment the CEO may be terminated by either party, by giving 6 months notice. The Company may make a payment in lieu of requiring the service of the notice period. Upon termination of employment, the CEO is 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.

Other executives

Under their conditions of employment the employment of the executives may be terminated by either party, by giving 3 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

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

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria. Upon termination all vested options remain in place. No executives are employed under a fixed term contract.

DIRECTORS' REPORT (CONTINUED)

Remuneration of Key Management Personnel of the Company and the Group

Table 1: Remuneration for the year ended 30 June 2015 and 30 June 2014

		Short term		Non-monetary benefits	Post employment Superannuation	Termination benefits	Long term leave	Share-based payments	Total	% performance related	% rights related
		Salary & Fees	Cash Bonus								
<i>Non-executive directors</i>											
R.N.Scott ⁽¹⁾	2015	66,615	-	-	-	-	-	-	66,615	0.00%	0.00%
	2014	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
T.A.Holmes ⁽²⁾	2015	34,614	-	3,960	-	-	-	-	38,574	0.00%	0.00%
	2014	75,000	-	9,595	-	-	-	-	84,595	0.00%	0.00%
R.P.Salmon	2015	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
	2014	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
M. Starkey ⁽³⁾	2015	-	-	-	-	-	-	-	-	0.00%	0.00%
	2014	-	-	-	-	-	-	-	-	0.00%	0.00%
<i>Other Key Management Personnel</i>											
S.McWilliam ⁽⁴⁾	2015	342,295	105,000	-	41,353	-	12,435	153,084	654,167	39.45%	23.40%
	2014	322,808	93,000	-	43,332	-	-	65,240	524,380	30.18%	12.44%
I.Parkes	2015	237,121	45,000	-	28,635	-	364	48,876	359,996	26.08%	13.58%
	2014	224,703	41,250	-	24,817	-	-	12,604	303,374	17.75%	4.15%
R.Hair ⁽⁵⁾	2015	250,000	45,000	-	23,750	-	188	29,261	348,199	21.33%	8.40%
	2014	7,692	-	253	712	-	-	968	9,625	10.06%	10.06%
G.Mitchell ⁽⁶⁾	2015	-	-	-	-	-	-	-	-	0.00%	0.00%
	2014	207,877	-	1,195	20,580	193,842	-	1,178	424,672	0.28%	0.28%
Totals	2015	980,645	195,000	3,960	93,738	-	12,987	231,221	1,517,551		
	2014	945,580	134,250	11,043	89,441	193,842	-	79,990	1,454,146		

1) R. Scott was appointed Chairman on 17 November 2014.

2) T. Holmes ceased to be Chairman and Director on 17 November 2014.

3) Acting as a director in connection with discharging his duties as an executive of National Australia Bank ("NAB") and consequently does not currently take fees for his service. M. Starkey was appointed as a non-executive director on 1 February 2013.

4) S. McWilliam was appointed Chief Executive Officer on 1 January 2013.

5) R.Hair was appointed General Manager – Sales on 10 June 2014.

6) G. Mitchell resigned on 6 June 2014.

DIRECTORS' 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 2015 (2014: no options granted).

No options vested or were exercised during the years ended 30 June 2015 or 30 June 2014.

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

Compensation rights: granted and vested during the year (Consolidated)

The table below discloses the number of share rights granted to executives as remuneration for the years ended 30 June 2015 and 30 June 2014.

The Employee rights plan was approved at the Homeloans Limited Annual General Meeting on 22 November 2012.

Share rights under the 2014 STI deferred bonus scheme were awarded on 28 August 2014 following confirmation of the 2014 financial year performance.

Share rights under the 2015 STI deferred bonus scheme were awarded on 31 August 2015 following confirmation of the 2015 financial year performance.

Table 2: Short Term Incentive – STI deferred bonus scheme

	Year	No. of rights awarded during the year	Grant date	Fair value per right \$	Vesting date	Expiry date
<i>Key management personnel</i>						
S.McWilliam	2015	66,464	01/07/2014	0.73	01/09/2016	01/09/2016
	2014	43,972	01/07/2013	0.66	01/09/2015	01/09/2015
I.Parkes	2015	28,485	01/07/2014	0.73	01/09/2016	01/09/2016
	2014	19,504	01/07/2013	0.66	01/09/2015	01/09/2015
R.Hair	2015	28,485	01/07/2014	0.73	01/09/2016	01/09/2016
	2014	-	-	-	-	-

Table 3: Long Term Incentive – LTI retention scheme

	Year	No. of rights awarded during the year	Grant date	Fair value per right \$	Vesting date	Expiry date
<i>Key management personnel</i>						
S.McWilliam	2015	83,333	17/04/2015	0.53	17/04/2016	17/04/2016
		83,333	17/04/2015	0.49	17/04/2017	17/04/2017
		83,334	17/04/2015	0.45	17/04/2018	17/04/2018
	2014 ⁽¹⁾	149,578	1/01/2014	0.77	30/06/2015	30/06/2015
I.Parkes	2015	42,553	1/08/2014	0.71	31/12/2015	31/12/2015
	2014	-	-	-	-	-
R.Hair	2015	-	-	-	-	-
	2014	41,118	11/06/2014	0.67	31/12/2015	31/12/2015

(1) 149,578 rights had vested as at 30 June 2015 with shares subsequently issued on 2nd July 2015.

DIRECTORS' REPORT (CONTINUED)

Table 4: Long Term Incentive – LTI performance related scheme

	Year	No. of rights awarded during the year	Grant date	Fair value per right \$	Vesting date ⁽¹⁾	Expiry date
<i>Key management personnel</i>						
S.McWilliam	2015	38,889	1/01/2015	0.28	31/12/2015	31/12/2017
		38,889	1/01/2015	0.25	31/12/2016	31/12/2017
		38,889	1/01/2015	0.23	31/12/2017	31/12/2017
		38,889	1/01/2015	0.33	31/12/2015	31/12/2017
		38,889	1/01/2015	0.33	31/12/2016	31/12/2017
		38,888	1/01/2015	0.32	31/12/2017	31/12/2017
	2014	24,927	1/01/2014	0.41	31/12/2014 ⁽²⁾	31/12/2016
		24,927	1/01/2014	0.39	31/12/2015	31/12/2016
		24,935	1/01/2014	0.37	31/12/2016	31/12/2016
		24,927	1/01/2014	0.45	31/12/2014 ⁽²⁾	31/12/2016
		24,927	1/01/2014	0.45	31/12/2015	31/12/2016
		24,935	1/01/2014	0.45	31/12/2016	31/12/2016
I.Parkes	2015	16,667	1/01/2015	0.28	31/12/2015	31/12/2017
		16,667	1/01/2015	0.25	31/12/2016	31/12/2017
		16,667	1/01/2015	0.23	31/12/2017	31/12/2017
		16,667	1/01/2015	0.33	31/12/2015	31/12/2017
		16,666	1/01/2015	0.33	31/12/2016	31/12/2017
		16,666	1/01/2015	0.32	31/12/2017	31/12/2017
	2014	11,308	1/01/2014	0.41	31/12/2014 ⁽²⁾	31/12/2016
		11,308	1/01/2014	0.39	31/12/2015	31/12/2016
		11,310	1/01/2014	0.37	31/12/2016	31/12/2016
		11,308	1/01/2014	0.45	31/12/2014 ⁽²⁾	31/12/2016
		11,308	1/01/2014	0.45	31/12/2015	31/12/2016
		11,311	1/01/2014	0.45	31/12/2016	31/12/2016
R.Hair	2015	17,361	1/01/2015	0.28	31/12/2015	31/12/2017
		17,361	1/01/2015	0.25	31/12/2016	31/12/2017
		17,361	1/01/2015	0.23	31/12/2017	31/12/2017
		17,361	1/01/2015	0.33	31/12/2015	31/12/2017
		17,361	1/01/2015	0.33	31/12/2016	31/12/2017
		17,361	1/01/2015	0.32	31/12/2017	31/12/2017
	2014	-	-	-	-	-

(1) No LTI performance rights vested during the year.

(2) These performance rights were tested at 31 December 2014. As the performance condition was not satisfied, these rights will be tested again at 31 December 2015.

DIRECTORS' REPORT (CONTINUED)

Table 5: Company performance and shareholder returns

Basic earnings per share on a statutory basis was 5.33 cents.

	2015	2014	2013	2012	2011 ⁽²⁾
Basic earnings per share (cents)	5.33	5.84	7.26	7.67	8.96
Return on assets (%) ⁽¹⁾	2.0%	2.1%	2.3%	2.0%	1.8%
Return on equity (%)	13.3%	14.7%	17.9%	20.2%	20.9%
Dividend payout ratio (%)	75.0%	85.5%	82.7%	78.9%	67.5%
Share price (cents)	58.0	75.0	94.5	58.0	62.0
Dividends (cents)	4.0	5.0	6.0	6.0	6.0

- 1) As a result of the requirement under AASB 10 – Consolidated Financial Statements, the parent company exercises control over the special purpose entity, Residential Mortgage Trust (RMT), and therefore significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.
- 2) A return of capital of 35 cents per share was made during the year ended 30 June 2011.

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

No options held by KMP's during the 2015 financial year.

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

	Balance at beginning of period 1 July 14	Granted as remuneration	Shares issued	Net change other	Balance at end of period 30 June 15	Vested and exercisable	Not vested
30 June 2015							
Executives							
S.McWilliam	366,466	549,797	(23,338)	-	892,925	149,578	743,347
I.Parkes	100,655	171,038	(13,298)	-	258,395	-	258,395
R. Hair ⁽¹⁾	41,118	132,652	-	-	173,770	-	173,770
G. Mitchell ⁽²⁾	-	-	-	-	-	-	-
Total	508,239	853,487	(36,636)	-	1,325,090	149,578	1,175,512

- 1) R.Hair was appointed General Manager – Sales on 10 June 2014
- 2) G. Mitchell resigned on 6 June 2014

There were no alterations to the terms and conditions of rights awarded as remuneration since their award date.

DIRECTORS' REPORT (CONTINUED)

Rights forfeited during the reporting period:

No rights were forfeited during the reporting period.

Shareholdings of Key Management Personnel of the Company and the Group

Shares held in Homeloans Limited (number)

	Balance 01 July 2014 Ord.	Granted as remuneration Ord.	On exercise of Options Ord.	Net Change Other Ord.	Balance 30 June 2015 Ord.
30 June 2015					
Directors					
R.N.Scott ⁽¹⁾	2,156,116	-	-	-	2,156,116
T.A.Holmes ⁽²⁾	12,847,024	-	-	(12,847,024)	-
R.P.Salmon	10,977,449	-	-	-	10,977,449
Executives					
S.McWilliam	50,000	23,338	-	-	73,338
I. Parkes	-	13,298	-	-	13,298
R. Hair ⁽³⁾	10,000	-	-	-	10,000
G. Mitchell ⁽⁴⁾	-	-	-	-	-
Total	26,040,589	36,636	-	(12,847,024)	13,230,201

1) R. Scott was appointed Chairman on 17th November 2014

2) T. Holmes ceased to be Chairman and Director on 17th November 2014

3) R.Hair was appointed General Manager – Sales on 10 June 2014

4) G. Mitchell resigned on 6 June 2014

Loans to Key Management Personnel of the Company and the Group

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

There were no loans to key management personnel as at 30 June 2015.

(ii) Details of key management personnel with loans above \$100,000 in the reporting period:

There were no loans to key management personnel above \$100,000 as at 30 June 2015.

End of Remuneration Report

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit and Risk Management Committee	Nomination and Remuneration Committee
Number of meetings held:	14	4	2
Number of meetings attended:			
T. A. Holmes	5	1	1
R. P. Salmon	13	4	2
R. N. Scott	14	4	2
M. Starkey	11	2	2

Committee Membership

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

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

Audit and Risk Management Committee

R.N. Scott (Chairman)
R.P. Salmon
M. Starkey

Nomination and Remuneration Committee

R.P. Salmon (Chairman)
R.N. Scott
M. Starkey

ROUNDING

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

DIRECTORS' REPORT (CONTINUED)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Non-Audit Services

The entity's auditor, Ernst and Young received the following amounts for the provision of non-audit services.

	\$
Tax and compliance services	29,000
Other advisory services	88,837
	<u>117,837</u>

Signed in accordance with a resolution of the directors



Robert N. Scott
Chairman

Perth, 24 September 2015

Auditor's Independence Declaration to the Directors of Homeloans Limited

In relation to our audit of the financial report of Homeloans Limited for the financial year ended 30 June 2015, 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



V L Hoang
Partner
24 September 2015

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. The statement reflects the Company's corporate governance system as at the date of this report.

The statement reports against the 3rd edition of the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" which became effective from 1 July 2014. As required by the ASX Listing Rule 4.10.3, the 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 this corporate governance statement and for further information on the corporate governance policies adopted by Homeloans Limited refer to our website: <http://www.homeloans.com.au/>.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Note	CONSOLIDATED		HOMELoANS LIMITED	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
ASSETS					
Cash and cash equivalents	8	12,316	13,798	3,630	6,802
Receivables	9	5,227	5,253	13,611	12,307
Loans and advances to customers	10	200,438	203,405	-	-
Other financial assets	11	63,829	52,016	41,584	37,538
Plant and equipment	12	635	843	635	843
Investment in controlled entities	13	-	-	10,706	8,335
Goodwill	15	13,242	13,220	655	655
TOTAL ASSETS		295,687	288,535	70,821	66,480
LIABILITIES					
Payables	17	4,803	5,917	15,592	15,902
Interest-bearing liabilities	18	209,151	209,546	3,540	1,592
Other financial liabilities	19	27,782	22,785	12,223	10,977
Derivative financial liability	22	32	39	-	-
Lease incentives	20	100	101	100	101
Deferred income tax liabilities	5	9,693	7,973	6,321	6,015
Provisions	21	735	637	735	637
TOTAL LIABILITIES		252,296	246,998	38,511	35,224
NET ASSETS		43,391	41,537	32,310	31,256
EQUITY					
Issued capital	23	39,184	39,029	39,184	39,029
Reserves	23	1,232	940	1,232	940
Retained earnings/(accumulated losses)	23	2,975	1,568	(8,106)	(8,713)
TOTAL EQUITY		43,391	41,537	32,310	31,256

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 2015

	Note	CONSOLIDATED		HOMELOANS LIMITED	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Interest income	4(a)	18,274	19,220	4,623	4,471
Interest expense	4(e)	(10,425)	(10,816)	(1,428)	(1,328)
Net interest income		7,849	8,404	3,195	3,143
Fees and commission income	4(b)	37,864	33,664	27,519	26,175
Fees and commission expense	4(f)	(22,528)	(18,782)	(13,745)	(12,189)
Other operating income	4(c)	244	376	4,675	3,287
Operating expenses	4(g)	(15,959)	(15,229)	(15,526)	(15,130)
Impairment gain	4(h)	406	257	-	-
Gain on remeasurement of loans and advances recognised at amortised cost	4(d)	143	204	-	-
Profit before income tax		8,019	8,894	6,118	5,286
Income tax expense	5	(2,411)	(2,689)	(1,310)	(1,593)
Net profit after tax for the year		5,608	6,205	4,808	3,693
Total comprehensive income for the year attributable to members of Homeloans Limited		5,608	6,205	4,808	3,693
Earnings per share for profit attributable to the ordinary equity holders of the parent					
Basic earnings per share (cents per share)	6	5.33	5.84		
Diluted earnings per share (cents per share)	6	5.28	5.82		

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 2015

	Issued Capital \$'000	Retained Earnings/ (Accumulated Losses) \$'000	Reserves \$'000	Total \$'000
CONSOLIDATED				
At 1 July 2013	66,131	(24,189)	816	42,758
Profit after tax for the year	-	6,205	-	6,205
Total comprehensive income	-	6,205	-	6,205
Share buyback	(1,449)	-	-	(1,449)
Dividend reinvestment plan	297	-	-	297
Capital reduction ⁽¹⁾	(25,950)	25,950	-	-
Share-based payments	-	-	124	124
Equity dividends	-	(6,398)	-	(6,398)
At 1 July 2014	39,029	1,568	940	41,537
Profit after tax for the year	-	5,608	-	5,608
Total comprehensive income	-	5,608	-	5,608
Share issued under performance rights	74	-	(74)	-
Dividend reinvestment plan	81	-	-	81
Share-based payments	-	-	366	366
Equity dividends	-	(4,201)	-	(4,201)
At 30 June 2015	39,184	2,975	1,232	43,391
	Issued Capital \$'000	Retained Earnings/ (Accumulated Losses) \$'000	Reserves \$'000	Total \$'000
PARENT				
At 1 July 2013	66,131	(31,958)	816	34,989
Profit after tax for the year	-	3,693	-	3,693
Total comprehensive income	-	3,693	-	3,693
Share buyback	(1,449)	-	-	(1,449)
Dividend reinvestment plan	297	-	-	297
Capital reduction ⁽¹⁾	(25,950)	25,950	-	-
Share-based payments	-	-	124	124
Equity dividends	-	(6,398)	-	(6,398)
At 1 July 2014	39,029	(8,713)	940	31,256
Profit after tax for the year	-	4,808	-	4,808
Total comprehensive income	-	4,808	-	4,808
Share issued under performance rights	74	-	(74)	-
Dividend reinvestment plan	81	-	-	81
Share-based payments	-	-	366	366
Equity dividends	-	(4,201)	-	(4,201)
At 30 June 2015	39,184	(8,106)	1,232	32,310

1) Homeloans Limited reduced the share capital of the Company in accordance with Section 258F of the Corporations Act, effective 1 April 2014. The amount of the capital reduction was \$25,950,000 representing goodwill written off in 2002 and 2003. See note 23.

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 2015

	Note	CONSOLIDATED		HOMELoANS LIMITED	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Cash flows from operating activities					
Interest received		18,573	19,725	4,861	4,751
Interest paid		(11,829)	(10,699)	(1,432)	(1,336)
Loan fees and other income		33,077	30,261	27,945	26,977
Salaries and other expenses		(34,420)	(31,125)	(26,377)	(23,354)
Proceeds from/(repayments of) warehouse facility ⁽¹⁾		5,488	(6,719)	-	-
Repayments to bondholders ⁽¹⁾		(8,140)	(8,892)	-	-
Net loans repaid from borrowers ⁽¹⁾		3,965	16,265	-	-
Income taxes paid		(2,812)	(2,796)	(2,812)	(2,796)
Net cash flows from operating activities	8	3,902	6,020	2,185	4,242
Cash flows from investing activities					
Purchase of plant and equipment		(172)	(659)	(172)	(659)
Investment in convertible note		(613)	-	(613)	-
Acquisition of Barnes Home Loans		(2,371)	-	(2,371)	-
Net cash flows used in investing activities		(3,156)	(659)	(3,156)	(659)
Cash flows from financing activities					
Share buyback program		-	(1,449)	-	(1,449)
Proceeds from borrowings		2,662	149	2,662	149
Repayment of borrowings		(834)	(1,332)	(807)	(1,332)
Payment of dividends		(4,056)	(6,106)	(4,056)	(6,106)
Net cash flows used in financing activities		(2,228)	(8,738)	(2,201)	(8,738)
Net decrease in cash and cash equivalents		(1,482)	(3,377)	(3,172)	(5,155)
Add: Opening cash and cash equivalents		13,798	17,175	6,802	11,957
Closing cash and cash equivalents	8	12,316	13,798	3,630	6,802

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 positive operating cashflows of \$1,613,000 (2014: positive \$1,750,000) during the financial year.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015

Note 1: CORPORATE INFORMATION

The financial report of Homeloans Limited (“the Company”) and its controlled entities (“the Group”) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of directors on 24 September 2015.

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.

New and amended accounting standards and interpretations

Except as disclosed below, the accounting policies adopted are consistent with those of the previous financial year. From 1 July 2014, the Group has adopted all new and amended Standards and Interpretations effective from 1 July 2014 including:

Standards	Summary
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle. Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: <ul style="list-style-type: none">– AASB 2 - Clarifies the definition of ‘vesting conditions’ and ‘market condition’ and introduces the definition of ‘performance condition’ and ‘service condition’.– AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.– AASB 8 - Requires entities to disclose factors used to identify the entity’s reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments’ asset to the entity’s total assets.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

(b) Statement of compliance (Continued)

Standards	Summary
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	<ul style="list-style-type: none"> – AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. <p>AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.</p>
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	<p>Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:</p> <ul style="list-style-type: none"> – AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132. <p>AASB 140 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.</p>
AASB 1031	<p><i>Materiality</i></p> <p>The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.</p> <p>AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.</p> <p>AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014.</p>

The adoption of these standards and interpretations did not have a significant impact on the financial position or performance of the Group.

New and amended Standards and 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. Management is in the process of assessing the impact of these accounting standards and interpretations.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.</p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p>	1 January 2018	1 July 2018

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.</p> <p>The main changes are described below.</p> <ol style="list-style-type: none"> a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>	1 January 2018	1 July 2018

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	<i>Revenue from Contracts with Customers</i>	<p>In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>).</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <p>(a) Step 1: Identify the contract(s) with a customer</p> <p>(b) Step 2: Identify the performance obligations in the contract</p> <p>(c) Step 3: Determine the transaction price</p> <p>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</p> <p>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</p> <p>Early application of this standard is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>	1 January 2018	1 July 2018

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

(d) Business combinations

Business combinations (post 1 July 2009)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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 circumstances and 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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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.

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.

(e) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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.

(f) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(g) Intangibles

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

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

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

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

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

(h) 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.

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.

(i) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

- 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 10 – Consolidated 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

(n) 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.

(o) 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.

(p) 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.

(q) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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.

(r) 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.

(s) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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.

(t) 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.

(u) 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.

(v) 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 2015 (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.

(w) 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.

(x) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Available-for-sale investments

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the 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.

(y) 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.

(z) 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, and any other employee benefits expected to be wholly 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 high quality corporate 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.

(aa) 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.

(bb) 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

(cc) 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.

Consolidation of SPVs

The Group manages and services trusts that hold residential mortgage-backed assets and securitised financial liabilities and retains the right to the residual income of these trusts. The Group has concluded that the RMT SPVs meet the criteria of being controlled entities under AASB 10 – *Consolidated financial statements* because the Group holds the beneficial interest to the residential income stream and has power to appoint the SPV manager to direct relevant activities of the SPVs as stipulated in the Trust Deed. The Group holds the beneficial interest to the residential income stream but the major risks and rewards, notably credit risk, lie with the mortgage-backed security holder. 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 in recognising a financial asset is in accordance with the 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 of the future trailing commission assets for the financial year ended 30 June 2015 was \$6,244,000 (2014: \$2,259,000).

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 15.

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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

The initial 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. The assumptions to be used in the valuation by management is based primarily on an annual assessment with external actuaries and determined as follows:

	Year ended 30 June 2015	Year ended 30 June 2014
Weighted average loan life ⁽¹⁾	3.30 years	2.92 years
Discount rate	⁽²⁾	12.0%

- 1) The methodology has changed in calculating the weighted average loan life. This has been performed by external actuaries using the commonly accepted Standard and Poor's definition. The prior year comparative has also been reported on the same basis.
- 2) The discount rate applied to cash flow projections is 12% for all loans settled up to 30 June 2014 with a discount rate of 6% being used for loans settled from 1 July'14 onwards and is based on average discount rates appropriately adjusted for the counter party credit risks. The decrease in the discount rate is mainly due to a change in the valuation methodology adopted by the external actuaries engaged by the Group during the year.

Some changes were made to the prepayment rates during the period. If these changes had not been made, the net profit after tax result would have been lower by \$2,185,000.

A remeasurement of the underlying cashflows relating to the trailing commission receivable and payable 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
- Trailing commission 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.

(dd) Comparatives

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

(ee) Fair value

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 2015 (Continued)

Year ended 30 June 2015	Origination and Management \$'000	Securitisation of Mortgages \$'000	Total \$'000
Revenue			
Interest Income	6,565	11,709	18,274
Fee and commission income	37,563	301	37,864
Other operating income	244	-	244
Total segment revenue from external	44,372	12,010	56,382
Inter-segment revenue	2,410	-	2,410
Total segment revenue	46,782	12,010	58,792
Inter-segment elimination			(2,410)
Total consolidated revenue			56,382
Result			
Segment results before impairment and finance costs	5,851	1,694	7,545
Impairment gain	-	406	406
Gain on re-measurement of loans and advances recognised at amortised cost	-	143	143
Finance costs	(75)	-	(75)
Segment results before income tax	5,776	2,243	8,019
Income tax expense			(2,411)
Net profit for the year			5,608
Assets and liabilities			
Segment assets	85,477	210,210	295,687
Total assets			295,687
Segment liabilities	36,885	206,117	243,002
Unallocated liabilities (tax balances)			9,294
Total liabilities			252,296
Other segment information			
Capital expenditure	172	-	172
Depreciation	380	-	380
Interest expense	2,915	7,510	10,425

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Year ended 30 June 2014	Origination and Management \$'000	Securitisation of Mortgages \$'000	Total \$'000
Revenue			
Interest Income	6,168	13,052	19,220
Fee and commission income	33,361	303	33,664
Other operating income	376	-	376
Total segment revenue from external	39,905	13,355	53,260
Inter-segment revenue	2,510	-	2,510
Total segment revenue	42,415	13,355	55,770
Inter-segment elimination			(2,510)
Total consolidated revenue			53,260
Result			
Segment results before impairment and finance costs	6,238	2,327	8,565
Impairment gain	-	257	257
Gain on remeasurement of loans and advances recognised at amortised cost	-	204	204
Finance costs	(132)	-	(132)
Segment results before income tax	6,106	2,788	8,894
Income tax expense			(2,689)
Net profit for the year			6,205
Assets and liabilities			
Segment assets	74,651	213,884	288,535
Total assets			288,535
Segment liabilities	28,435	209,841	238,276
Unallocated liabilities (tax balances)			8,722
Total liabilities			246,998
Other segment information			
Capital expenditure	659	-	659
Depreciation	443	-	443
Interest expense	2,696	8,120	10,816

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 2015 (Continued)

Note 4: REVENUES AND EXPENSES

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
REVENUE				
(a) Interest income				
Interest received – other person/corporations	11,820	13,271	110	219
Discount unwind on net present value of trail income	6,454	5,949	4,513	4,252
	18,274	19,220	4,623	4,471
(b) Fees and commission income				
Mortgage origination income	14,215	12,784	10,353	9,332
Loan management fees	23,649	20,880	17,166	16,843
	37,864	33,664	27,519	26,175
(c) Other				
Rental income	18	83	18	83
Management Fees – Wholly owned controlled entities	-	-	2,738	2,911
Dividend received from subsidiary	-	-	1,700	-
Other	226	293	219	293
	244	376	4,675	3,287
Total Revenue	56,382	53,260	36,817	33,933
(d) Other income				
Gain on remeasurement of loans and advances recognised at amortised cost ⁽¹⁾	143	204	-	-
EXPENSES				
(e) Interest expense				
Interest on other loans	110	132	110	132
Interest recognised on trailer commission payable	2,805	2,564	1,318	1,196
Interest payable to bondholders	786	1,096	-	-
Interest payable to warehouse facility provider	6,724	7,024	-	-
	10,425	10,816	1,428	1,328
(f) Fees and commission expense				
Mortgage origination expense	11,564	9,814	7,887	6,528
Loan management expense	10,964	8,968	5,858	5,661
	22,528	18,782	13,745	12,189

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
(g) Operating expenses				
(i) <i>General administrative expenses</i>				
Depreciation	380	443	380	443
Occupancy costs	1,330	1,403	1,279	1,403
Marketing, consultancy and IT	2,030	1,756	2,011	1,756
Other expenses	2,156	2,171	2,051	2,078
	5,896	5,773	5,721	5,680
(ii) <i>Employee benefits</i>				
Wages & salaries	7,551	7,533	7,387	7,533
Workers' compensation costs	18	14	18	14
Annual leave provision	82	(63)	82	(63)
Long service leave provision	98	36	98	36
Employee incentive payments	400	450	400	450
Payroll tax	560	362	560	362
Share based payments	366	124	366	124
Other employee costs	919	951	847	951
	9,994	9,407	9,758	9,407
(iii) <i>Other operating expenses</i>				
Bank fees	69	49	47	43
Total Operating expenses	15,959	15,229	15,526	15,130
(h) Impairment gain – loans and advances ⁽²⁾	406	257	-	-
(i) Gain on derivative financial liability classified as held for trading ⁽³⁾	7	27	-	-

- 1) Gain on remeasurement of loans and advances recognised at amortised cost

The gain of \$143,000 (2014: \$204,000) 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

- 2) 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 gain of \$406,000 has been recognised which represents amounts reversed during the year. In the 2014 financial year, an impairment gain of \$257,000 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 10 for further disclosure on allowance for impairment loss.

- 3) Gain on derivative financial liability classified as held for trading is included under 'Interest payable to bondholders' under note (e) but disclosed separately under note (i).

Note 5: INCOME TAX

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
The major components of income tax expense are:				
Statement of Comprehensive Income				
<i>Current income tax</i>				
Current income tax charge	1,799	2,174	1,127	1,120
Adjustments in respect of current income tax of previous years	(123)	(23)	(123)	(23)
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	735	538	306	496
Income tax expense reported in the Statement of Comprehensive Income	2,411	2,689	1,310	1,593
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	8,019	8,894	6,118	5,286
At the Group's statutory income tax rate of 30% (2014: 30%)	2,406	2,668	1,835	1,586
Entertainment expenses	11	7	11	7
Share rights expensed	104	24	104	24
Difference in prior year tax (paid during the year)	(123)	(23)	(123)	(23)
Other	13	13	(7)	(1)
Fully franked dividend received from subsidiary	-	-	(510)	-
Income tax expense reported in the Statement of Comprehensive Income	2,411	2,689	1,310	1,593

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Deferred tax income				
Deferred income tax at 30 June related to the following:				
<i>CONSOLIDATED</i>				
<i>Deferred tax liabilities</i>				
Effective interest adjustments on loans and advances	(98)	(78)	20	(8)
Accrued income	(118)	(93)	25	(11)
Trailing commissions receivable	(19,149)	(15,605)	1,873	678
Deferred income tax liabilities	(19,365)	(15,776)		
<i>Deferred tax assets</i>				
Losses available for offset against future taxable income	-	-	-	34
Accrued expenses	657	209	(338)	38
Effective interest adjustments on loans and advances	19	22	3	2
Allowance for impairment losses – loans and advances to customers	122	399	277	102
Derivative instrument	10	12	2	8
Lease incentives	30	30	-	(16)
Provisions	386	325	(61)	8
Capital items	113	62	(51)	24
Trailing commissions payable	8,335	6,744	(1,015)	(321)
Deferred income tax assets	9,672	7,803		
Net deferred income tax liabilities	(9,693)	(7,973)		
Deferred tax expense			735	538
Reconciliation of net deferred tax liabilities:	2015	2014		
	\$'000	\$'000		
Opening balance as of 1 July	(7,973)	(7,435)		
Tax expense during the year recognised in profit or loss	(735)	(538)		
Deferred taxes acquired in business combination	(985)	-		
Closing balance as at 30 June	(9,693)	(7,973)		

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<i>PARENT</i>				
<i>Deferred tax liabilities</i>				
NPV future trailing commissions receivable	(12,475)	(11,261)	1,214	631
Accrued income	(113)	(93)	20	(11)
Deferred income tax liabilities	(12,588)	(11,354)		
<i>Deferred tax assets</i>				
Losses available for offset against future profits	-	-	-	34
NPV future trailing commissions payable	3,667	3,200	(467)	(211)
Accrued expenses	559	209	(350)	38
Lease incentives	30	30	-	(16)
Provisions	1,898	1,838	(60)	7
Capital items	113	62	(51)	24
Deferred income tax assets	6,267	5,339		
Net deferred income tax liabilities	(6,321)	(6,015)		
Deferred tax expense			306	496

Reconciliation of net deferred tax liabilities:

	2015 \$'000	2014 \$'000
Opening balance as of 1 July	(6,015)	(5,519)
Tax expense during the year recognised in profit or loss	(306)	(496)
Closing balance as at 30 June	(6,321)	(6,015)

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 2015 (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	
	2015 \$'000	2014 \$'000
Total increase to tax payable to Homeloans Limited from subsidiaries	1,097	1,051
Total increase to intercompany assets of Homeloans Limited	1,097	1,051

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 or rights 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 2015 \$'000	Year ended 30 June 2014 \$'000
Net profit attributable to ordinary equity holders of the parent	5,608	6,205
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	5,608	6,205
	No. of shares 30 June 2015	No. of shares 30 June 2014
Weighted average number of ordinary shares for basic earnings per share	105,296,106	106,294,189
Effect of dilution: Share rights	872,477	437,748
Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS	106,168,583	106,731,937

There were no options outstanding at 30 June 2015.

There were 2,001,444 rights outstanding at 30 June 2015 (2014: 854,216). 1,128,967 TSR related performance rights have not been included in the diluted earnings per share calculation as they are contingent on future events, which have not been met at 30 June 2015.

During the period between the reporting date and the date of completion of the financial statements, 145,922 shares have been issued as a result of options or share rights 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 2015 (Continued)

Note 7: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Declared and paid during the year:				
Franked dividends:				
Fully franked final dividend on ordinary shares for 2014 – 2.0 cents per share (2013: 3.0 cents)	2,102	3,194	2,102	3,194
Fully franked interim dividend on ordinary shares for 2015 – 2.0 cents per share (2014: 3.0 cents)	2,099	3,204	2,099	3,204
	4,201	6,398	4,201	6,398
Proposed and not recognised				
Dividends on ordinary shares:				
Final fully franked dividend for 2015 – 2.0 cents (2014: 2.0 cents)	2,107	2,102	2,107	2,102

Franking credit balance

	HOMELoANS LIMITED	
	2015 \$'000	2014 \$'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% (2014: 30%)	2,788	1,698
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	(398)	749
	2,390	2,447
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	(903)	(901)
	1,487	1,546
The tax rate at which dividends have been franked is 30% (2014: 30%)		

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'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	3,824	6,910	3,630	6,802
RMT Cash Collections Account ⁽¹⁾	5,335	3,895	-	-
Restricted Cash ⁽²⁾	3,157	2,993	-	-
	12,316	13,798	3,630	6,802

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Reconciliation of net profit after tax to net cash flows from operating activities				
Net profit after tax	5,608	6,205	4,808	3,693
Adjustments for:				
Impairment gain	(406)	(257)	-	-
Depreciation	380	443	380	443
Share rights expense	292	124	292	124
Gain on disposal of asset	10	-	-	-
Changes in assets and liabilities:				
Decrease in receivables	(5,135)	(3,202)	(4,730)	(755)
Decrease in derivative financial liabilities/assets	(7)	(27)	-	-
Movement in impairment allowance account	(921)	(341)	-	-
Decrease in due to borrowers	4,294	16,546	-	-
Decrease in due to bondholders	(8,140)	(8,892)	-	-
Increase/(decrease) in due to warehouse facility	5,487	(6,719)	-	-
Increase in deferred tax liabilities	735	538	306	495
Decrease in current tax liability	(1,136)	(646)	(1,146)	(646)
Increase in trade and other payables	2,744	2,212	2,178	852
Increase in provisions	97	36	97	36
Net cash from operating activities	3,902	6,020	2,185	4,242

Disclosure of financing facilities

Refer to note 18.

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 2015 (Continued)

Note 9: RECEIVABLES

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current				
Fees receivables				
Non-related parties ⁽¹⁾	2,774	2,360	1,783	1,681
	2,774	2,360	1,783	1,681
Accrued interest ⁽³⁾	407	464	-	-
Prepayments ⁽⁴⁾	773	569	555	386
Last days collections receivable ⁽⁵⁾	352	1,561	-	-
Other	308	299	99	288
	4,614	5,253	2,437	2,355
Non-Current				
Fees receivables				
Related parties ⁽²⁾				
- wholly owned controlled entity	-	-	10,561	9,952
Loans to other corporates ⁽⁶⁾	613	-	613	-
	613	-	11,174	9,952
Total	5,227	5,253	13,611	12,307

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 26. 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.
- 6) Convertible note investment in a private company due to mature within 60 days of year end. On maturity date the company has the option to convert the note into common stock. A grant of 24.5% equity ownership in an Australian Joint Venture for no consideration is available when the Joint Venture is established in Australia. The investment is not rated by Standard & Poor's or any other credit rating agency.

Receivables are neither past due nor impaired. The amount is considered fully collectible. Refer to note 24 for fair value.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 10: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Gross loans and advances to customers	200,847	204,735	-	-
<i>Less:</i> Allowance for impairment loss	(409)	(1,330)	-	-
	200,438	203,405	-	-

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<i>Current</i>				
Less than 1 year	57,446	58,704	-	-
<i>Non-current</i>				
1 – 2 years	41,007	41,861	-	-
2 – 3 years	29,275	29,853	-	-
3 – 4 years	20,901	21,293	-	-
4 – 5 years	14,924	15,188	-	-
> 5 years	37,294	37,836	-	-
Total	200,847	204,735	-	-

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Allowance for impairment loss - opening	1,330	1,671	-	-
Decreased impairment charges	(406)	(257)	-	-
Amounts written off	(515)	(84)	-	-
Allowance for impairment loss - closing	409	1,330	-	-
Collective allowance	409	392	-	-
Specific allowance	-	938	-	-
	409	1,330	-	-

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

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
1 - 3 months	895	734	-	-
3 - 6 months	894	341	-	-
> 6 months	1,027	1,445	-	-
Total	2,816	2,520	-	-

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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Carrying amount of impaired loans	-	2,530	-	-
Less: Expected recoverable amount	-	(1,592)	-	-
Impairment loss	-	938	-	-

Refer to note 24 for fair value disclosure for loans and advances to customers.

Collateral repossessed

As at 30 June 2015 the Group had 1 repossessed residential property in possession being the security for RMT loans. The Group intends to sell this property with the proceeds to go towards clearing the outstanding balance of the underlying RMT loan. The loan balance of this property is \$473,000 and the estimated value of the property is circa \$480,000.

Note 11: OTHER FINANCIAL ASSETS

Future trailing commissions receivable ⁽¹⁾	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
- Current	20,067	17,588	13,593	13,234
- Non-current	43,762	34,428	27,991	24,304
	63,829	52,016	41,584	37,538

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 determination of the fair value on initial recognition are disclosed under note 2 (cc).

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 12: PLANT AND EQUIPMENT

	CONSOLIDATED		HOMELOANS LIMITED	
	Plant and equipment \$'000		Plant and equipment \$'000	
Year ended 30 June 2015				
At 1 July 2014, net of accumulated depreciation and impairment		843		843
Additions		172		172
Depreciation charge for the year		(380)		(380)
At 30 June 2015, net of accumulated depreciation and impairment		635		635
At 30 June 2015				
Cost		7,602		7,602
Accumulated depreciation and impairment		(6,967)		(6,967)
Net carrying amount		635		635
Year ended 30 June 2014				
At 1 July 2013, net of accumulated depreciation and impairment		627		627
Additions		659		659
Depreciation charge for the year		(443)		(443)
At 30 June 2014, net of accumulated depreciation and impairment		843		843
At 30 June 2014				
Cost		7,431		7,431
Accumulated depreciation and impairment		(6,588)		(6,588)
Net carrying amount		843		843

Note 13: INVESTMENT IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Investment at cost in controlled entities	-	-	23,702	21,331
Impairment allowance	-	-	(12,996)	(12,996)
	-	-	10,706	8,335

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 14: BUSINESS COMBINATION

On 28th February 2015, Homeloans Limited purchased 100% of the shares of Brisbane based Barnes Mortgage Management Pty Ltd which trades as Barnes Home Loans for cash consideration of \$2,371,000. Established in 1993, Barnes is one of Queensland's longest established Non-Bank Lenders with Funds under Management of \$0.5 billion as at 28th February 2015. The acquisition will enable additional growth opportunities in key market segments, particularly third party distribution. In addition, it will enable the group to deliver enhanced product and service delivery opportunities for customers.

The fair values of the identifiable assets and liabilities of Barnes as at the date of acquisition were detailed as follows:

	Fair value recognised on acquisition \$'000
Other financial assets - trailing commissions receivable	5,569
Other financial liabilities - trailing commissions payable	(1,918)
Interest bearing liabilities - loan facility	(332)
Cash at bank	8
Trade and other assets	262
Trade and other payables	(224)
Provision for annual leave	(25)
Finance lease liabilities and other funding	(6)
Deferred tax liability	(985)
Fair value of identifiable net assets acquired	2,349

Goodwill

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

	\$'000
Purchase consideration transferred	2,371
Fair value of identifiable net assets acquired	(2,349)
Goodwill arising on acquisition	22

All contractual cashflows relating to receivables are expected to be collected by the due date. From the date of acquisition the contribution of Barnes to the net profit before tax of the group was \$172,000 before taking into account movements in trailing commissions receivable and payable. It is not practical to quantify the impact the acquisition of the business would have had on the consolidated statement of comprehensive income had it occurred at the beginning of the reporting period due to the differences in accounting policies adopted.

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

Acquisition-related costs

Acquisition costs of \$204,000 related to restructuring and legal and other administration fees included under operating expenses in the Statement of Comprehensive Income.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 15: GOODWILL

	CONSOLIDATED	HOMELoANS LIMITED
	\$'000	\$'000
Year ended 30 June 2015		
At 1 July 2014, net of impairment	13,220	655
Add: Goodwill on acquisition of Barnes (note 14)	22	-
At 30 June 2015, net of impairment	13,242	655
At 30 June 2015		
Net carrying amount	13,242	655
Year ended 30 June 2014		
At 1 July 2013, net of impairment	13,220	655
At 30 June 2014, net of impairment	13,220	655
At 30 June 2014		
Net carrying amount	13,220	655

Goodwill acquired through business combinations was 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 five years. The five 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 5 year forecasts.

The assumed growth rate in settled loans over the period covered by the forecast is an assumed average growth rate of 10% each year (2014:10%). The projected growth rate used reflects long term market averages as well as the business' projections of its own expected performance. Loan repayment rates range from 14% to 25% depending on types of loans and lenders (2014: 14% to 25%) and are based on actual experience. A terminal value of 16.5 times (2014: 8 times) was used for cash flows beyond 5 years reflecting industry averages.

The nominal post-tax discount rate applied to cash flow projections is 8.5% (2014:12.0%) and is based on average discount rates for comparable businesses in the industry.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Securitisation of Mortgages

The total amount of goodwill allocated to the Securitisation of Mortgages Cash Generating Unit was written down to zero in a prior period.

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

CONSOLIDATED	Origination and Management		Securitisation of Mortgages		Total	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Carrying amount of goodwill	13,242	13,220	-	-	13,242	13,220

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2015 and 30 June 2014.

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 – 2% per annum (2014: 2%) 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.
- Expected decrease in the 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 5% would not cause the recoverable amount of the unit to fall short of its carrying value.

Note 16: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan exists where eligible employees of the Group, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently no members of this plan as all options have been fully exercised as at 30 June 2015.

Options held at the beginning of the reporting period:

No options were held at the beginning of the reporting period (2014: nil).

Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2015 (2014: nil).

Options exercised:

No options were exercised during the year.

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 2015.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Employee Rights Plan

The Employee Rights Plan was approved at the 2012 Annual General Meeting.

2015 STI deferred share right plan

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2015 financial year in August 2015. The deferred STI was granted on 1 July 2014 in the form of share rights and will vest on 1 September 2016 subject to continuing employment. The fair value of the rights granted was \$177,613 which includes \$90,107 for the Key Management Personnel.

2015 LTI share rights – Retention plan

During the financial year, the Board awarded a grant of 292,553 share rights to the Key Management Personnel of the Group. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded to retain key executives and have a fair value of \$152,672. Accordingly, the vesting conditions are subject to continued employment with no performance hurdles. 42,553 share rights will vest on 31 December 2015 with 83,333 share rights vesting on 17 April 2016, a further 83,333 vesting on 17 April 2017 and a final 83,334 vesting on 17 April 2018.

2015 LTI share rights - Performance

During the financial year, the Board awarded a grant of 712,499 share rights to the Key Management Personnel and executive of the Group, which includes 437,499 share rights to the Key Management Personnel. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded at a fair value of \$206,625 as at 30 June 2015 and are subject to varying vesting conditions.

50% of the LTI share rights is subject to a performance condition measured by the compounding annual growth rate ("CAGR") of the total shareholder return ("TSR") of the Group while the other 50% of the share rights is subject to a performance condition measured at the Company's performance against the ASX Small Ordinaries Index. TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares. These performance criteria were selected as they align executive remunerations with the creation of shareholder wealth.

The CAGR and performance against the ASX Small Ordinaries Index components were further split into three equal tranches.

- Tranche 1 is tested at 31 December 2015. If the performance condition is not satisfied, any share rights that remain unvested will be tested again at 31 December 2016 and if it is still not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2017.
- Tranche 2 is tested at 31 December 2016. If the performance condition is not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2017.
- Tranche 3 is tested at 31 December 2017. If the performance condition is not satisfied, it will lapse.

The proportion of share rights that will vest under the performance criteria is determined as below:

Table 1:

CAGR in TSR performance level	Percentage of share rights vesting
Less than 10%	0%
10%	50%
Greater than 10% and less than 15%	Percentage of vesting increases on a straight line basis
15% or more	100%

Table 2:

ASX Small Ordinaries Index	Percentage of share rights vesting
TSR below Small Ordinaries Index's TSR	0%
TSR equal to Small Ordinaries Index's TSR	50%
TSR outperform Small Ordinaries Index's TSR by less than 25%	An additional 2% vests for each 1% above
TSR outperforms Small Ordinaries Index's TSR by 25% or more	100%

If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

2014 STI deferred share right plan

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2014 and 2013 financial years in August 2014 and August 2013 respectively. The deferred STI for 2013 was issued in the form of share rights and vested on 1 September 2014. The deferred STI for 2014 will vest on 1 September 2015 subject to continuing employment.

2014 LTI share rights – Retention plan

During the 2014 financial year, the Board awarded a grant of 190,696 share rights to the Key Management Personnel of the Group. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded to retain key executives and have a fair value of \$142,848. The vesting conditions are subject to continued employment with no performance hurdles. The share rights will vest on 30 June 2015 and 31 December 2015.

2014 LTI share rights - Performance

During the 2014 financial year, the Board awarded a grant of 476,782 share rights to the Key Management Personnel and executive of the Group, which includes 277,744 share rights to the Key Management Personnel. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded at a fair value of \$175,465 as at 30 June 2014 and are subject to varying vesting conditions.

50% of the LTI share rights is subject to a performance condition measured by the compounding annual growth rate ("CAGR") of the total shareholder return ("TSR") of the Group while the other 50% of the share rights is subject to a performance condition measured at the Company's performance against the ASX Small Ordinaries Index. TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares. These performance criteria were selected as they align executive remunerations with the creation of shareholder wealth.

The CAGR and performance against the ASX Small Ordinaries Index components were further split into three equal tranches.

- Tranche 1 was tested at 31 December 2014. As the performance condition was not satisfied, any share rights that remain unvested will be tested again at 31 December 2015 and if it is still not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2016.
- Tranche 2 is tested at 31 December 2015. If the performance condition is not satisfied, any share rights that remain unvested will be tested again for the final time at 31 December 2016.
- Tranche 3 is tested at 31 December 2016. If the performance condition is not satisfied, it will lapse.

The proportion of share rights that will vest under the performance criteria is determined as below:

Table 1:

CAGR in TSR performance level	Percentage of share rights vesting
Less than 10%	0%
10%	50%
Greater than 10% and less than 15%	Percentage of vesting increases on a straight line basis
15% or more	100%

Table 2:

ASX Small Ordinaries Index	Percentage of share rights vesting
TSR below Small Ordinaries Index's TSR	0%
TSR equal to Small Ordinaries Index's TSR	50%
TSR outperform Small Ordinaries Index's TSR by less than 25%	An additional 2% vests for each 1% above
TSR outperforms Small Ordinaries Index's TSR by 25% or more	100%

If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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

	2015		2014	
	Number of rights	Fair value of grant \$	Number of rights	Fair value of grant \$
Outstanding at the beginning of the year	854,216	478,672	101,130	63,976
Granted during the year - LTI	1,005,052	359,297	667,478	343,645
Granted during the year - STI	243,306	177,613	145,922	96,383
Vested during the year - LTI	-	-	-	-
Vested during the year - STI	(101,130)	(63,976)	-	-
Forfeited during the year - LTI	-	-	(60,314)	(25,332)
Outstanding at the end of the year	2,001,444	951,606	854,216	478,672
Vested at the end of the year	149,578	115,427	-	-

Rights held at the beginning of the reporting period:

854,216 rights were held at the beginning of the reporting period (2014: 101,130).

Rights granted:

1,005,052 rights were granted by Homeloans Limited during the year ended 30 June 2015 under the Employee LTI Rights Plan (2014: 667,478).

243,306 rights were granted by Homeloans Limited during the year ended 30 June 2015 under the Employee STI Rights Plan (2014: 145,922).

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

The following table summarises information about rights held by employees and other related parties as at 30 June 2015:

Number of rights	Grant date	Vesting date	Expiry date	Fair value of rights \$	Share price at the date of grant
145,922	1 July 2013	1 September 2015	1 September 2015	0.66	0.94
149,578	1 January 2014	30 June 2015	30 June 2015	0.77	0.84
69,404	1 January 2014	31 December 2014	31 December 2016	0.41	0.84
69,404	1 January 2014	31 December 2015	31 December 2016	0.39	0.84
69,426	1 January 2014	31 December 2016	31 December 2016	0.37	0.84
69,404	1 January 2014	31 December 2014	31 December 2016	0.45	0.84
69,404	1 January 2014	31 December 2015	31 December 2016	0.45	0.84
69,426	1 January 2014	31 December 2016	31 December 2016	0.45	0.84
41,118	11 June 2014	31 December 2015	31 December 2015	0.67	0.77
243,306	1 July 2014	1 September 2016	1 September 2016	0.73	0.75
42,553	1 August 2014	31 December 2015	31 December 2015	0.71	0.80
118,750	1 January 2015	31 December 2015	31 December 2017	0.28	0.63
118,750	1 January 2015	31 December 2016	31 December 2017	0.25	0.63
118,750	1 January 2015	31 December 2017	31 December 2017	0.23	0.63
118,750	1 January 2015	31 December 2015	31 December 2017	0.33	0.63
118,750	1 January 2015	31 December 2016	31 December 2017	0.33	0.63
118,749	1 January 2015	31 December 2017	31 December 2017	0.32	0.63
83,333	17 April 2015	17 April 2016	17 April 2018	0.53	0.57
83,333	17 April 2015	17 April 2017	17 April 2018	0.49	0.57
83,334	17 April 2015	17 April 2018	17 April 2018	0.45	0.57
<u>2,001,444</u>				<u>0.48</u>	<u>0.73</u>

The following table summarises information about rights held by employees and other related parties as at 30 June 2014:

Number of rights	Grant date	Vesting date	Expiry date	Fair value of rights \$	Share price at the date of grant
101,130	22 November 2012	1 September 2014	1 September 2014	0.63	0.72
145,922	1 July 2013	1 September 2015	1 September 2015	0.66	0.94
69,404	1 January 2014	31 December 2014	31 December 2016	0.41	0.84
69,404	1 January 2014	31 December 2015	31 December 2016	0.39	0.84
69,426	1 January 2014	31 December 2016	31 December 2016	0.37	0.84
69,404	1 January 2014	31 December 2014	31 December 2016	0.45	0.84
69,404	1 January 2014	31 December 2015	31 December 2016	0.45	0.84
69,426	1 January 2014	31 December 2016	31 December 2016	0.45	0.84
149,578	1 January 2014	30 June 2015	30 June 2015	0.77	0.84
41,118	11 June 2014	31 December 2015	31 December 2015	0.67	0.77
<u>854,216</u>				<u>0.56</u>	<u>0.84</u>

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

The following factors and assumptions were used in determining the fair value of rights offered on grant date:

Assumptions	2015 deferred STI	2015 retention LTI	2015 CAGR performance LTI	2015 Index performance LTI
Stock volatility	32.5%-37.5%	32.5%-42.5%	37.5%-42.5%	40%
Risk free rate	1.84%	1.77% - 1.87%	2.09%	2.09%
Dividend type	Discrete	Discrete	Continuous	Continuous
Dividend yield	N/A	N/A	6.84%	6.84%
Index volatility	N/A	N/A	N/A	17%
Correlation	N/A	N/A	N/A	(0.03)

Assumptions	2014 deferred STI	2014 retention LTI	2014 CAGR performance LTI	2014 Index performance LTI	2013 deferred STI
Stock volatility	40%-50%	40%-50%	40%-50%	40%-50%	40%-50%
Risk free rate	2.63%	2.57%-2.65%	2.62% - 3.27%	2.62% - 3.27%	3.48%
Dividend type	Discrete	Discrete	Continuous	Continuous	Discrete
Dividend yield	N/A	N/A	6.6%	6.6%	N/A
Index volatility	N/A	N/A	N/A	15%	N/A
Correlation	N/A	N/A	N/A	0.2	N/A

Rights vested:

101,130 rights had vested as at 30 June 2015 (2014: nil).

149,578 rights had vested but were not yet issued as shares as at 30 June 2015.

Rights forfeited during the reporting period:

No rights were forfeited during the reporting period (2014: 60,314).

Note 17: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current				
Trade payables ⁽¹⁾	843	583	713	587
Payable to related parties:				
- controlled entity ⁽²⁾	-	-	11,916	11,916
Accrued commissions ⁽³⁾	583	593	583	593
Sundry creditors and accruals ⁽⁴⁾	3,020	3,320	2,380	2,806
Interest payable ⁽⁵⁾	357	1,421	-	-
Total	4,803	5,917	15,592	15,902

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 26.
- 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 24 for fair value disclosure.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 18: INTEREST-BEARING LIABILITIES

	Maturity	CONSOLIDATED		HOMELoANS LIMITED	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current					
Bank loans					
Warehouse facility ⁽¹⁾	30/06/2016	181,740	176,252	-	-
WBC facility ⁽²⁾	8/04/2016	1,000	-	1,000	-
Other		57	-	52	-
Non-bank loans					
Bonds ⁽³⁾	2040	6,810	9,061	-	-
Loans from funders ⁽⁴⁾	2015-2020	250	318	189	317
		189,857	185,631	1,241	317
Non-Current					
WBC facility ⁽²⁾	8/04/2017	1,500	-	1,500	-
Non-bank loans					
Bonds ⁽³⁾	2040	16,750	22,640	-	-
Loans from funders ⁽⁴⁾	2015-2020	999	1,275	754	1,275
Other		45	-	45	-
		19,294	23,915	2,299	1,275
		209,151	209,546	3,540	1,592

Terms and conditions relating to the above financial instruments:

- 1) 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 3.69% (2014: 3.97%). 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 A3 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 2016. The warehouse limit was maintained at \$200,000,000 in June 2015 (the limit as at 30 June 2014 was \$200,000,000). 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 \$1.5 million cash and 1.75% 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 A3 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.

- 2) Homeloans entered into a loan agreement with Westpac for \$2,500,000 on 8th April 2015. The outstanding balance of the loan facility must be no greater than \$1,500,000 from 12 months of date of execution with the remainder of the loan due and payable within 24 months of entering into the agreement (8th April 2017). Interest is recognised at an effective rate of 5.70%. The loan is secured by a general security interest over the company.
- 3) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. This is a pass through facility. Interest is recognised at an effective rate of 2.66% (2014: 2.84%).
- 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 5.73% (2014: 6.04%).

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Fair value disclosures

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

Financing facilities available

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Total Facilities				
- RMT warehouse facility (refer note 18 ⁽¹⁾)	200,000	200,000	-	-
- Westpac loan facility (refer note 18 ⁽²⁾)	3,000	-	3,000	-
	203,000	200,000	3,000	-
Facilities used at reporting date				
- RMT warehouse facility (refer note 18 ⁽¹⁾)	181,740	176,252	-	-
- Westpac loan facility (refer note 18 ⁽²⁾)	2,500	-	2,500	-
	184,240	176,252	2,500	-
Facilities unused at reporting date				
- RMT warehouse facility (refer note 18 ⁽¹⁾)	18,260	23,748	-	-
- Westpac loan facility (refer note 18 ⁽²⁾)	500	-	500	-
	18,760	23,748	500	-

Assets pledged as security

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
ASSETS				
<i>First mortgage</i>				
Loans and advances to customers	200,584	204,549	-	-
<i>Floating charge</i>				
Cash assets	8,492	6,888	-	-
Receivables	759	2,025	-	-
Total assets pledged as security	209,835	213,462	-	-

In addition, the loan facility of \$3,000,000 is secured by a general security interest over the company.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 19: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMEOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Future trailing commissions payable ⁽¹⁾				
- Current	8,762	7,725	4,239	4,122
- Non-current	19,020	15,060	7,984	6,855
	27,782	22,785	12,223	10,977

Terms and conditions relating to the above financial instruments:

- 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 initial fair value on recognition of the payable are disclosed under note 2 (cc). Refer to note 24 for fair value disclosure.

Note 20: LEASE INCENTIVES

	CONSOLIDATED		HOMEOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Lease incentives ⁽¹⁾	100	101	100	101

Terms and conditions relating to the lease incentive:

- 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 June 2013 in respect of the Head Office of the parent entity.

The lease term for the Head Office premises is 8 years. The value of these incentives has been deferred and amortised against occupancy costs over the lease term.

Note 21: PROVISIONS

	CONSOLIDATED		HOMEOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Long service leave				
- Current	468	453	468	453
- Non-current	267	184	267	184
	735	637	735	637

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 22: DERIVATIVE FINANCIAL LIABILITY

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Derivative financial liability classified as held for trading ⁽¹⁾	32	39	-	-

- 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.

Homeloans restricts the exposure to credit losses on derivative instruments it holds by entering into master netting arrangements with a Big 4 bank. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in an offset of balance-sheet assets and liabilities unless certain conditions for offsetting under AASB 132 apply.

Although master-netting arrangements may significantly reduce credit risk, it should be noted that:

- Credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realised.
- The extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

At 30 June 2015, master netting arrangements reduced the credit risk on favourable contracts that have a fair value of (\$32,000) (2014: (\$39,000)).

Notional Principal Amount	Consolidated		Parent	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Less than 1 year	1,218	2,647	-	-
1 – 2 years	964	1,225	-	-
2 – 3 years	672	275	-	-
3 – 4 years	-	625	-	-
4 – 5 years	-	-	-	-
Total	2,854	4,772	-	-

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 \$7,000 (2014: income of \$27,000).

Refer to note 24 for fair value disclosure.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 23: ISSUED CAPITAL AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Ordinary shares issued and fully paid	39,184	39,029	39,184	39,029
	39,184	39,029	39,184	39,029

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

Terms and conditions of issued capital

Ordinary shares

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

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

	CONSOLIDATED		HOMELOANS LIMITED	
	No of shares (‘000’s)	\$’000	No of shares (‘000’s)	\$’000
<i>Movement in ordinary shares on issue</i>				
At 30 June 2013	106,655	66,131	106,655	66,131
Issued on dividends reinvested	368	297	368	297
Shares bought back during the year	(1,909)	(1,449)	(1,909)	(1,449)
Capital reduction	-	(25,950)	-	(25,950)
At 30 June 2014	105,114	39,029	105,114	39,029
Issued on dividends reinvested	133	81	133	81
Shares issued under performance rights	101	74	101	74
At 30 June 2015	105,348	39,184	105,348	39,184

Share options

There were no options over ordinary shares granted during the financial year (2014: nil). At the end of the year there were no unissued ordinary shares in respect of which options were outstanding (2014: nil). For more information refer to Note 16.

No shares were issued on options exercised during the year (See Note 16).

Dividend Reinvestment Plan

132,492 ordinary shares were issued on dividends reinvested as part of the Company's Dividend Reinvestment Plan (2014:367,457).

Share buybacks

No shares were bought back during the year under the existing share buyback program (2014:1,908,838).

Shares issued

101,130 shares were issued during the year under performance rights (2014: nil).

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Capital Management Plan

The Group's capital comprises share capital, reserves plus retained earnings amounting to \$43,391,000 at 30 June 2015 (2014: The Group's capital comprised share capital, reserves plus retained earnings amounting to \$41,537,000). 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 2015 and the year ended 30 June 2014.

Capital reduction - 2014

Homeloans Limited reduced the share capital of the Company in accordance with Section 258F of the Corporations Act, effective 1 April 2014. The amount of the capital reduction was \$25,950,000 representing goodwill written off in 2002 and 2003.

The capital reduction had the effect of reducing the share capital account and reducing retained losses in the parent entity financial statements. This was a technical adjustment only which did not impact the net assets, financial results, cash flow or funding of the parent entity or of the Homeloans consolidated group.

Homeloans was required to make the following disclosures to shareholders under ASX Listing Rule 7.20:

- The effect of the capital reduction on the number of securities and the amount unpaid (if any) on the securities – no impact;
- The proposed treatment of any fractional entitlements arising from the capital reduction – not applicable as no fractional entitlements arise;
- The proposed treatment of any convertible securities on issue – not applicable as there are no convertible securities on issue and, if there were, the capital reduction would have no impact on them.

Retained earnings/Accumulated losses

Movements in retained earnings/accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Balance 1 July	1,568	(24,189)	(8,713)	(31,958)
Net profit for the year	5,608	6,205	4,808	3,693
Dividends	(4,201)	(6,398)	(4,201)	(6,398)
Capital reduction	-	25,950	-	25,950
Balance 30 June	2,975	1,568	(8,106)	(8,713)

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Share Based Payment Reserve

Movements in the share based payment reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Balance 1 July	940	816	940	816
Shares issued under performance rights	(74)	-	(74)	-
Charge for the period	366	124	366	124
Balance 30 June	1,232	940	1,232	940

The share based payment reserve recognises the fair value of options and rights 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.

The rights fair value is calculated using Hoadley's Hybrid ESO valuation models and expensed over the period in which the rights vest. The value allocated to each right 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 (refer to note 16).

Note 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its financial assets and liabilities comprising cash and cash equivalents, loans and advances, receivables, payables, interest bearing liabilities and fixed to floating interest rate swaps, which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and prepayment risk. The Group manages these risks in accordance with its risk management policies. The objective of the policies is to support the delivery of the Group's financial 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 and Risk Management 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 10 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:

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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

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

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
ASSETS				
Cash assets	12,316	13,798	3,630	6,802
Receivables	5,227	5,253	13,611	12,307
Loans and advances to customers ⁽¹⁾	200,438	203,405	-	-
Other financial assets	63,829	52,016	41,584	37,538
Total	281,810	274,472	58,825	56,647

1) Please refer to Note 18 (1) 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 "A- / A3" 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 18, the Group has unused warehouse facilities at the reporting date.

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:

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

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 2016. The Group re-commenced writing new loans into the warehouse facility in the 2013 financial year and continued to write a proportion of new business volumes through the warehouse facility. 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 table below summarises the maturity profile of the Group's contractual undiscounted financial liabilities including derivative financial instruments.

CONSOLIDATED	Maturity analysis						Total \$'000
	Balance \$'000	0 – 6 months \$'000	6 – 12 months \$'000	1 – 3 years \$'000	3 – 5 years \$'000	> 5 years \$'000	
30 June 2015							
Financial Liabilities							
Trade payables	4,803	4,803	-	-	-	-	4,803
Interest bearing liabilities							
- Westpac loan facility	2,505	76	1,059	1,568	-	-	2,703
- RMT Warehouse facility	181,740	30,109	156,670	-	-	-	186,779
- Bonds	23,560	3,995	3,334	8,665	4,222	4,990	25,206
- Loans from funders	1,249	162	158	591	529	-	1,440
- Lease payable	97	26	26	45	-	-	97
Trailing commissions payable	27,782	4,902	4,373	12,458	6,868	7,591	36,192
Derivative financial liability	32	34	-	-	-	-	34
Total	241,768	44,107	165,620	23,327	11,619	12,581	257,254

CONSOLIDATED	Maturity analysis						Total \$'000
	Balance \$'000	0 – 6 months \$'000	6 – 12 months \$'000	1 – 3 years \$'000	3 – 5 years \$'000	> 5 years \$'000	
30 June 2014							
Financial Liabilities							
Trade payables	5,917	5,917	-	-	-	-	5,917
Interest bearing liabilities							
- RMT Warehouse facility	176,252	29,994	152,052	-	-	-	182,046
- Bonds	31,701	5,389	4,497	11,684	5,687	6,933	34,190
- Loans from funders	1,593	208	203	756	677	-	1,844
Trailing commissions payable	22,785	4,676	3,986	10,711	5,455	4,632	29,460
Derivative financial liability	39	1	10	17	14	-	42
Total	238,287	46,185	160,748	23,168	11,833	11,565	253,499

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

PARENT	Maturity analysis						Total \$'000
	Balance \$'000	0 – 6 months \$'000	6 – 12 months \$'000	1 – 3 years \$'000	3 – 5 years \$'000	> 5 years \$'000	
30 June 2015							
Financial Liabilities							
Trade and other payables	15,592	15,592	-	-	-	-	15,592
Interest bearing liabilities							
- Westpac Loan Facility	2,500	71	1,059	1,568	-	-	2,698
- Loans from funders	943	123	120	448	401	-	1,092
- Lease payable	97	26	26	45	-	-	97
Trailing commissions payable	12,223	2,414	2,076	5,599	2,843	2,649	15,581
Total	31,355	18,226	3,281	7,660	3,244	2,649	35,060

PARENT	Maturity analysis						Total \$'000
	Balance \$'000	0 – 6 months \$'000	6 – 12 months \$'000	1 – 3 years \$'000	3 – 5 years \$'000	> 5 years \$'000	
30 June 2014							
Financial Liabilities							
Trade and other payables	15,902	15,902	-	-	-	-	15,902
Interest bearing liabilities							
- Loans from funders	1,592	207	202	756	677	-	1,842
Trailing commissions payable	10,977	2,523	2,096	5,280	2,367	1,606	13,872
Total	28,471	18,632	2,298	6,036	3,044	1,606	31,616

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 2015 (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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Financial Assets				
Cash and cash equivalents	12,316	13,798	3,630	6,802
Loans and advances to customers	197,584	198,633	-	-
Derivative financial instrument (notional value)	2,854	4,772	-	-
	212,754	217,203	3,630	6,802
Financial liabilities				
Interest-bearing liabilities - floating	(209,151)	(209,546)	(3,540)	(1,592)
	(209,151)	(209,546)	(3,540)	(1,592)
Net Exposures	3,603	7,657	90	5,210

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	2015		2014	
	Net Profit / (Loss) after tax \$'000	Total Equity \$'000	Net Profit / (Loss) after tax \$'000	Total Equity \$'000
Consolidated				
+ 100bps	25	25	54	54
- 100bps	(25)	(25)	(54)	(54)
Parent				
+ 100bps	1	1	36	36
- 100bps	(1)	(1)	(36)	(36)

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 11 and note 19 for exposure at the balance date. The group monitors the prepayment rates on a monthly basis and modifies its valuation model input when the trends are established.

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

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Movement in variable	2015		2014	
	Net Profit / (Loss) after tax	Total Equity	Net Profit / (Loss) after tax	Total Equity
	\$'000	\$'000	\$'000	\$'000
Consolidated				
+ 10%	(2,443)	(2,443)	(1,722)	(1,722)
-10%	2,854	2,854	1,968	1,968
Parent				
+ 10%	(1,998)	(1,998)	(1,604)	(1,604)
-10%	2,334	2,334	1,825	1,825

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

Operational risk

Under mortgage origination and management agreements with various lenders, there is a contingent clause which requires Homeloans to repurchase settled loans if they do not meet certain lenders' criteria due to fault and negligence from Homeloans. Homeloans has implemented internal controls and processes to mitigate this risk. In addition the lenders have conducted various audits during the financial year with no material adverse findings. In the event the Group receives a potential claim in regards to the contingent clause described above the claim is assessed on its merits before a provision is made.

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 is based on a discounted cashflow model using the forward rate curve. The valuation is classified as level 2 in the fair value measurement hierarchy.

Set out below is a comparison of the carrying amounts and fair values of each class of financial instrument.

	Carrying amount		Fair value	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<i>Consolidated</i>				
<i>Financial assets</i>				
Cash	12,316	13,798	12,316	13,798
Receivables	5,227	5,253	5,227	5,253
Loans and advances to customers	200,438	203,405	200,438	203,405
Other financial assets ⁽¹⁾	63,829	52,016	74,336	52,016
<i>Financial liabilities</i>				
Payables	4,803	5,917	4,803	5,917
Interest bearing liabilities	209,151	209,546	209,151	209,546
Other financial liabilities ⁽¹⁾	27,814	22,824	32,436	22,824

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

	Carrying amount		Fair value	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
<i>Parent</i>				
<i>Financial assets</i>				
Cash	3,630	6,802	3,630	6,802
Receivables	13,611	12,307	13,611	12,307
Other financial assets ⁽¹⁾	41,584	37,538	48,143	37,538
<i>Financial liabilities</i>				
Payables	15,592	15,902	15,592	15,902
Interest bearing liabilities	3,540	1,592	3,540	1,592
Other financial liabilities ⁽¹⁾	12,223	10,977	14,011	10,977

- 1) 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 at year end include the prepayment rate and the discount rate. These assumptions are determined by management as follows:

	Year ended 30 June 2015	Year ended 30 June 2014
Weighted average loan life ⁽¹⁾	3.30 years	2.92 years
Discount rate	⁽²⁾	12.0%

- 1) The methodology has changed in calculating the weighted average loan life. This has been performed by external actuaries using the commonly accepted Standard and Poor's definition. The prior year comparative has also been reported on the same basis.
- 2) The discount rate applied to cash flow projections is 6% and is based on average discount rates appropriately adjusted for the counter party credit risks. The decrease in the discount rate is mainly due to a change in the valuation methodology adopted by the external actuaries engaged by the Group during the year.

Note 25: 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 1.8 years (2014: 2.1 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	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Within one year	1,170	1,092	1,170	1,092
After one year but not more than five years	2,388	1,979	2,388	1,979
	3,558	3,071	3,558	3,071

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 9.50% 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 2015 (Continued)

Note 26: RELATED PARTY DISCLOSURES

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

Name	Country of incorporation	% Equity interest		Investment	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<i>Parent entity</i>					
Homeloans Limited	Australia				
<i>Controlled entities of Homeloans Limited:</i>					
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				6,869	6,869
Consolidated incorporating:					
- 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%	-	-
RMT Warehouse Trust No.2 ⁽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
Barnes Mortgage Management Pty Ltd	Australia	100%	-	2,371	-
				10,706	8,335

1) Capital unit is held by a third party.

The Group manages and services trusts that hold residential mortgage-backed assets and securitised financial liabilities and retains the right to the residual income of these trusts. The Group has concluded that the RMT SPVs meet the criteria of being controlled entities under AASB 10 – Consolidated financial statements because the Group holds the beneficial interest to the residential income stream and has power to appoint the SPV manager to direct relevant activities of the SPVs as stipulated in the Trust Deed. 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.

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (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 17).

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		\$	\$	\$	\$
Other related parties – major shareholders:					
Advantage Financial Services (Division of National Australia Bank 'NAB')	2015	7,629,480	-	-	-
	2014	6,980,075	-	-	-
Macquarie Securitisation Limited	2015	2,130,473	-	-	-
	2014	45,160	-	-	-

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

Note 27: EVENTS AFTER BALANCE DATE

On 21st August, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2015 of 2.0 cents per share, fully franked. The dividend has not been provided for in the 30 June 2015 financial statements. The final dividend is payable on 5th October 2015.

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

Note 28: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELoANS LIMITED	
	2015 \$	2014 \$	2015 \$	2014 \$
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	266,742	266,538	228,001	224,617
▪ a compliance audit or review of the financial report of the entity and any other entity in the consolidated group	8,240	8,240	8,240	8,240
	274,982	274,778	236,241	232,857
Amounts received or due and receivable by Ernst & Young (Australia) for non-audit services:				
▪ Tax and compliance services	29,000	-	29,000	-
▪ Other advisory services	88,837	-	88,837	-
	392,819	274,778	354,078	232,857

Notes to the Financial Statements FOR THE YEAR ENDED 30 JUNE 2015 (Continued)

Note 29: DIRECTORS AND EXECUTIVE DISCLOSURES

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2015 \$	2014 \$	2015 \$	2014 \$
Short-Term	1,179,605	1,090,873	1,179,605	1,090,873
Post Employment	93,738	89,441	93,738	89,441
Other Long-Term	12,987	-	12,987	-
Termination Benefits	-	193,842	-	193,842
Share-based Payment	231,221	79,990	231,221	79,990
	<u>1,517,551</u>	<u>1,454,146</u>	<u>1,517,551</u>	<u>1,454,146</u>

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 2015 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 2015.

On behalf of the Board



Robert N. Scott
Chairman

Perth, 24 September 2015

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 2015, 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, a copy of which is included in the directors' report.

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 2015 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 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



V L Hoang
Partner
Perth
24 September 2015

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 21 September 2015

(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
Macquarie Bank Limited	21,159,193
National Australia Bank Limited	18,983,030
Redbrook Nominees Pty Ltd & Acres Holdings Pty Ltd	14,358,770
Robert Peter Cockburn Salmon & Peterlyn Pty Ltd (Salmon Family Fund A/c) & Peterlyn Pty Ltd (Salmon Superfund A/c)	10,977,449

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

There are 787 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	84
1,001 – 5,000	302
5,001 – 10,000	126
10,001 – 100,000	226
100,001 and over	47
TOTAL	785

There are 45 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
Macquarie Bank Limited (Strategic Investments A/c)	21,159,193	20.03
National Australia Bank Limited	18,983,030	17.97
Redbrook Nominees Pty Ltd	12,861,889	12.17
Tico Pty Ltd (TA Holmes Family Fund A/c)	8,123,944	7.69
Peterlyn Pty Ltd (Salmon Family Account)	5,987,497	5.67
Peterlyn Pty Ltd (RPC Salmon Super Fund A/c)	4,625,359	4.38
Hartley Phillips Securities Pty Ltd (Hartley Phillips INV TST A/c)	4,612,318	4.37
Bond Street Custodians Limited (CPCPL-V73544 A/c)	4,157,016	3.93
Top 4 Pty Ltd (The Foundation INV S/F A/c)	3,446,312	3.26
Ferber Holdings Pty Ltd (Scott Super Fund A/c)	1,661,497	1.57
Bond Street Custodians Limited (IAH-V20818 A/c)	1,500,000	1.42
Acres Holdings Pty Ltd	1,496,881	1.42
Daisson Holdings Pty Ltd (Lonie Super A/c)	600,000	0.57
Carpenter Nominees Pty Ltd (Robert Scott Family A/c)	494,619	0.47
Bond Street Custodians Limited (CPCPL-V12970 A/c)	435,900	0.41
JAMAC Holdings Pty Ltd	429,955	0.41
Equitas Nominees Pty Limited (3021524 A/c)	420,287	0.40
Beneficial Home Loans Pty Ltd	414,958	0.39
Mr Robert Peter Salmon	364,593	0.35
Terrine Investments Pty Ltd	342,873	0.32
TOTAL	91,118,121	87.20

(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.

