Homeloans
think differently

Homeloans Annual Report
2010 / 2011

CORPORATE INFORMATION

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

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

Directors

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

Company Secretary

Jennifer Murray

Registered Office

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

Corporate Office

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

National Office

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

Postal Address

PO Box 7216
Cloisters Square
Perth WA 6850

Share Registry

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

Bankers

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

Auditors

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

Homeloans Annual Report
2010 / 2011

Contents

Executive Chairman's Report

On behalf of your Board, I am delighted to present the 2011 Annual Report for Homeloans Limited.

It is pleasing that the Company has been able to grow the business and continue to deliver consistent and stable earnings performance amidst what continues to be a very challenging operating environment.

A solid financial result

For the year ended 30 June 2011 Homeloans recorded a statutory net profit after tax of $9.2m, down from the previous financial year result of $12.3m. This decrease was attributable to the company having returned 35 cents per share to shareholders (totalling approximately $35.7m) via a reduction in capital in September 2010, thereby reducing interest income. The prior year statutory result also included a tax benefit arising from tax consolidation legislation changes.

Normalised net profit after tax and after adjusting for the capital return and non cash adjustments was $8.1m, representing a marginal decrease on the previous corresponding period result of $8.4m.

Basic earnings per share on a statutory basis stood at 8.96 cents per share. Net asset backing per share was 37.06 cents, compared with 68.56 cents for the previous corresponding period. Taking into account the return of capital, net asset backing per share of 37.06 cents is up 12% on the comparable prior year result.

The Board declared a fully franked final dividend of 3.5 cents per share, in line with the 2010 final dividend, bringing the total to 6.0 cents per share for the year, fully franked.

This result reflects a continuation of consistent and stable earnings performance over the past three financial years and demonstrates Homeloans' ability to continue to deliver solid results in a challenging operating environment.

Lending volumes of Homeloans branded product increased 21% on the previous financial year which is particularly pleasing given the subdued levels of housing credit growth and intense competition evident over the 12-month period. This growth in lending volumes assisted in a 10% increase in net fee and commission income to $16.1m, up from the previous corresponding period result of $14.6m. The strong growth in lending volumes was supported by a national brand building advertising campaign, which resulted in a 4% increase in total operating expenses to $18.0m. Operating expenses excluding the advertising spend reduced 2% from $17.3m to $16.9m.

Having returned $35.7m of capital to shareholders during the year, the Company has maintained good levels of residual cash reserves which continue to be supported by strong operating cashflows emanating from underlying earnings. The Company also remains free of any recourse debt facilities, having repaid these in full in the prior year. The Board believes the ongoing cash reserves will be more than sufficient to meet the Group's ongoing funding requirements including future business development and investment.

Australian context

Over the past 12 months, the mortgage lending industry has faced numerous challenges including legislative changes, subdued housing credit growth, falling consumer confidence levels, more conservative consumer spending, and the level of competition for mortgage lending intensifying greatly. Furthermore, ongoing global volatility has impacted the local market although the Australian economy remains in a strong position relative to many other developed countries.

Housing credit growth rates have reduced to 25 to 30 year lows over the past 12 months. This has resulted in a significant increase in competition for a reduced pool of new mortgage lending flow. The increase in competition has been led aggressively by the major banks who have seen their share of total new mortgage lending flow once again increase to above 90%. Once the level of housing credit growth improves, we would expect the intensity of competition to ease. This is unlikely to occur until the second half of the new financial year.

Tim Holmes

Legistative changes in Australia have provided some 'interesting' challenges for the mortgage lending market. The National Consumer Credit Protection (NCCP) legislation has introduced a new compliance regime which has required industry participants to undertake a significant review of their business models and processes to adapt to the new requirements under the legislation. The new regime has been broadly embraced with the view that it will further strengthen the professionalism and integrity of the industry. Homeloans supports this view.

In December, the Federal Government, as part of its banking reform package, announced the abolition of exit fees for mortgage lending products. Despite firm opposition to these changes from across the industry, the legislative changes were passed with effect from 1 July 2011. The major banks leveraged off this change and used it, starting with NAB's "break up" campaign in February 2011, as an opportunity to drive more new business their way by offering to waive existing exit fees if customers chose to switch their loans from other lenders. This helped the major banks strengthen their dominant position in the market and contributed towards them increasing their share of new business. This seemed to be against the key objectives of the Government in releasing the reforms.

Whilst the removal of exit fees presented a challenge for the non-bank sector in particular, including Homeloans, the Company believes these challenges are outweighed by the strong opportunities created by the change. The existence of exit fees had historically created a competitive disadvantage for non-bank lenders and their removal will create a more level playing field with regards to mortgage product offerings. Homeloans, as a well established, experienced and respected lender, believes this more level playing field, together with the continuing channel conflict evident between the retail and third party distribution arms of the major retail banks, provides far greater scope for brokers and consumers alike to engage with our business.

There has continued to be consolidation within the second tier and non-bank sector during the past 12 months and this is expected to continue. Homeloans is one of the largest remaining non-bank lenders in Australia. With fewer brands in the marketplace, this has strengthened our position as a genuine alternative to the major banks. This continues to be a key part of our strategy in growing and building market share.

Expansion and growth

During the 2011 financial year we continued to focus on expanding our retail presence nationally in order to generate increased loan volumes. This resulted in Homeloans opening two new retail offices in Victoria and four in Queensland, with plans to open additional offices on the eastern seaboard and in Western Australia.

Supporting this retail expansion was vital, and Homeloans invested in a targeted branding and advertising campaign during the year, encompassing TV, internet and outdoor advertising in addition to public relations activities. As outlined in the 2010 annual report, Homeloans has forged partnerships with two high profile sporting entities – rugby league legend Shane Webcke, and Matthew Pavlich, captain of the Fremantle Dockers – who have been the faces of national TV, print media and online and outdoor advertising activity for Homeloans during the year. These combined activities have seen awareness of the Homeloans brand increase by 53 per cent nationally, according to our ongoing research.

Another key area of focus for Homeloans during the year has been the continued strengthening of our relationships with key broker partners across our third party distribution network. We are committed to further building on these and leveraging existing relationships to help drive greater levels of repeat business – this is an area of significant opportunity for us. We have also focused on ensuring we deliver a very high standard of service to our broker network. During the year we developed the "Elite Broker Circle", a preferred broker service platform designed to build deeper relationships with our key broker partners. This program is currently in the process of being rolled out across the country. We believe the provision of a consistently high level service standard is currently lacking across the mortgage broker industry and therefore we see this as an area in which we can gain competitive advantage.

The Company has continued to focus on improving operating efficiencies, including streamlining our front-end application and credit approval processes. This has allowed us to be more nimble and customer orientated, and supports our proposition to provide a very real and refreshing alternative to the major banks for home finance.

Homeloans continued to benefit from a diversified funding base during the year, which supported a 21% growth in own branded lending volumes. The Company continued to leverage off the strong relationships with its wholesale funding partners to improve and expand its product offering. Product innovation is critical, particularly in the current environment, and we expect to make further progress in this area over the year ahead.

The next 12 months

We expect challenging market conditions to be with us over the year ahead and there continues to be uncertainty as to how the current challenges facing the global economy will unfold.
In saying that, Homeloans is very well placed and is confident the next 12 months will present opportunities for the Company to continue to grow and differentiate itself in the market. Our scalability, access to diversified funding, strong brand, effective distribution channels and dedicated people provide us with a strong platform from which to grow the business and make the most of opportunities once market conditions improve.

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

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

Timothy A. Holmes
Executive Chairman

The Year in Review

Profit
Homeloans recorded a statutory net profit after tax of $9.2m for the year ended 30 June 2011, down from the previous financial year result of $12.3m. Normalised net profit after tax and after adjusting for the capital return in September 2010 and non-cash adjustments was $8.1m, representing a marginal decrease on the previous corresponding financial year result of $8.4m.

Net asset backing per share was 37.06 cents, compared with 68.56 cents for the previous corresponding period. Taking into account the return of capital, net asset backing per share of 37.06 cents was up 12% on the comparable prior period result.

Dividend
The Board has declared a fully franked final dividend of 3.5 cents per share, in line with the 2010 final dividend, bringing the total to 6.0 cents per share for the year, fully franked.

Earnings per share
Basic earnings per share on a statutory basis stood at 8.96 cents per share.

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

Management and Personnel
As at 30 June 2011, Homeloans had 96 full-time equivalent staff and 36 retail consultants nationally. We have a clear objective when recruiting: to identify and employ staff who fit the corporate culture of the company, and to facilitate their growth within the business. Skills are developed by a combination of mentoring, training and on the job experience, thus expanding their knowledge of the industry.

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

Distribution – Third party
Homeloans' third party volumes increased 22 per cent over the year, reinforcing the important contribution this channel makes towards our overall performance. This is a very strong result, particularly given the challenges that the market has provided over the past 12 months. Whilst non-bank market share has decreased across the sector, we have demonstrated an ability to grow our lending volumes.

Homeloans recognises the importance of our third party distribution network in continuing to grow the business. To this end, during the year we developed a number of initiatives to further enhance our value proposition to the market. Among these was the establishment of the Elite Broker Circle, a preferred broker service platform which is designed to build deeper relationships with key target brokers and grow the level of repeat business volumes with Homeloans. This program is currently in the process of being rolled out across the country.

During the year Homeloans also launched a new product offering via a platform called Access Home Loans. This product offering is tailored exclusively to professional service providers such as financial planners and accountants who have loan writing abilities within their business. The program provides a generic white label program which undertakes all processing, underwriting, settlement and ongoing service functions.

The investment we have made in our brand over the past 12 months has successfully raised awareness of Homeloans in the third party market. We also believe this has contributed towards improving the confidence and ease of the broker market in offering a Homeloans branded product to borrowers.

Aggregation models have moved aggressively into the white labelling space, which has seen such players investing in discounted price modelling to market their new brands. Whilst this has attracted much attention, it has also caused significant confusion regarding the market's ability to identify the difference between a simple white-labelled product and the value proposition of non-bank mortgage management models. Homeloans continues to focus on educating the market in this regard and reinforce the superior proposition offered through our business model.

Looking ahead, we expect to improve our competitive positioning in the next financial year through a number of ways. These include better broker engagement and the building of stronger relationships, thereby growing the level of repeat business; continued focus on providing superior customer service; and providing a variety of product solutions which cater to a broader spectrum of borrower needs.

Distribution – Direct sales
Homeloans' retail volumes increased 16 per cent over the year as our retail distribution channel continues to build on the strong brand awareness activity that has been rolled out over the past two years. These activities have resulted in Homeloans' brand awareness increasing 53 per cent nationally (according to ongoing consumer research).

The company's enhanced brand awareness has been achieved in part by our relationship with two key sporting identities: NRL legend and Channel 7 personality Shane Webcke, whose profile has been used to build the Homeloans brand in Queensland and NSW; and AFL champion Matthew Pavlich, who has played a vital role in promoting the brand in Western Australia, South Australia, and Victoria.

In line with our expansion strategy to build a strong retail distribution channel across Australia, Homeloans opened six new retail offices during the year – two in Victoria and four in Queensland. We intend to continue to build our retail distribution channel over the coming year. There will also be a greater focus on the NSW and Victorian markets, where we have identified a range of opportunities to increase brand awareness and generate increased lending volumes.

In expanding our network of Retail loan writers, we focus on those geographic areas that present strong opportunities for growth as well as the quality of the loan writers. Our priority is to seek to build relationships with high quality loan writers who embrace the Homeloans brand and service proposition. Our relationships with loan writers may take the form of a mobile lender, a Homeloans branded satellite office or an internal loan writer. Internal loan writers, who are recruited as employees of Homeloans, focus not only on new business opportunities, including following through leads generated from our various marketing activities, but also play a valuable role in helping to manage retention of our existing client base.

As we look to continue to grow loan volumes via our Retail network over the next 12 month period, we will continue to face strong competition from the major retail banks who are also likely to continue investing in building their own brands and distribution networks. Homeloans is well positioned to meet those challenges and to continue to remain competitive in this marketplace.

Marketing

In line with Homeloans' expansion strategy, marketing played an integral role during the past financial year. The company invested in a targeted branding and advertising campaign during the year, encompassing television, internet, print, and outdoor advertising. This was supported by pro-active public relations (PR) activities.

These strategic communication campaigns enhanced awareness of the Homeloans brand, which increased by 53 per cent nationally according to ongoing consumer research, and supported strong growth in lending volumes of Homeloans-branded product.

In line with the brand-building activity, considerable focus was placed on Homeloans' brand positioning to ensure a precise and consistent understanding of Homeloans and its role in the marketplace. This involved ensuring that internally all staff and representatives of Homeloans were clear on the market positioning of the business, and that all external communications are aligned with such market positioning.

Leveraging off the brand building initiatives, 'tactical' advertising activity was also undertaken in order to drive leads to our retail network. This involved television, radio and internet advertising.

Homeloans also invested considerable focus on its online presence. This included a relaunch of the Homeloans website, search engine optimisation and advertising, and the development and implementation of a social media strategy.

The social media activity seeks to satisfy a number of objectives, including enhancing endorsement of our brand; to act as a low-cost, high-engagement medium of communication; to express our brand attributes including our brand personality; to generate positive, 'virtual' word of mouth; to enhance search engine optimisation; and to generate leads.

Following the rollout of a Customer Relationship Management (CRM) software system in early 2010, the 2010/11 Financial Year saw the implementation of Homeloans' CRM strategy. This included a number of marketing initiatives designed to connect with customers, develop better communication channels, and further improve customer service. A key focus of these activities was enabling Homeloans to leverage off the company's existing contact base that included former, current, and prospective customers.

Funding and operations

Homeloans retained a strong level of liquidity from which to fund its growth in lending volumes via access to a diversified funding base. Homeloans has worked closely with its wholesale funding partners to maintain a competitive product offering in the market. During the year, Homeloans released a range of new products and features across its prime product range including: interest rates up to 1.00% below the major banks' standard variable rates, higher loan-to-value ratio limits, and a specialised self-managed super fund product.

Homeloans' proprietary funding line RMT did not fund any new originations during the year. We continue to rollover our warehouse funding line without any issues and we have maintained regular discussions with our warehouse facility provider as to the future utilisation of the facility. Whilst we were not in a position to fund new originations through RMT, we successfully improved the runoff performance of the RMT funded loan portfolio, thereby improving the return generated from it.

Looking forward, Homeloans' ability to fund new loans is strong and underpinned by its diversified funding model and the credit ratings of wholesale funders. The maturity of our processes, and the scalability of our operations and funding model provide a strong platform from which to maximise future growth opportunities.

The year ahead

The challenges presented by current market conditions are likely to continue well into the new financial year, however Homeloans maintains a positive outlook. The Company has established a strong platform from which to grow and believes the coming 12 months will present opportunities for us to further strengthen our position as a genuine and preferred alternative to the major banks for mortgage finance.

Financial statements

HOMELOANS LIMITED

ABN 55 095 034 003

30 JUNE 2011

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2011.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Timothy Alastair Holmes (Executive Chairman/Managing Director)

Tim was appointed Managing Director on 1 October 2008. Tim is also Chairman of the Board (appointed 1 July 2003) and was previously appointed as a director on 9 November 2000. He has 43 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He is also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry. Tim has not held any other Directorships of listed companies over the past three years.

Robert Peter Salmon (Non-Executive Director)

Appointed 9 November 2000. Rob has 41 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia. Rob is a member of the company's audit and nomination and remuneration committees. Rob has not held any other Directorships of listed companies over the past three years.

Brian Roland Benari (Non-Executive Director)

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

DIRECTORS' REPORT (CONTINUED)

Andrew Loddington Hall (Non-Executive Director)

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

Robert Norman Scott (Non-Executive Director)

Appointed 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 and now consults to Perth based Gooding Partners Chartered Accountants. Rob is chairman of the company's audit committee and is a member of the company's remuneration and nomination committee.

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

- Sandfire Resources NL (Appointed 30 July 2010)
- CGA Mining Limited (Appointed 8 January 2009)
- Neptune Marine Services Limited (Appointed 17 May 2007)
- Amadeus Energy Ltd (Appointed 30 October 1996)

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

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

Rob was formerly a director of New Guinea Energy Ltd from 1 July 2006 to May 2009.

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 28 years experience in providing corporate secretarial services for both public and proprietary companies. She is presently the Senior Manager, Corporate Secretarial Services for Perth based Gooding Partners Chartered Accountants.

DIRECTORS' REPORT (CONTINUED)

Interests in the shares and options of the company and related bodies corporate.

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

	Number of Ordinary Shares	Number of Options Over Ordinary Shares
T A Holmes	12,635,082	-
R P Salmon	12,269,494	-
R N Scott	2,104,622	-
B R Benari	-	-
A Hall	-	-

DIVIDENDS

	Cents	$'000
Final dividends recommended:		
- on ordinary shares	3.5	3,633
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (fully franked)	2.5	2,550
Final dividend for 2010		
- on ordinary shares (fully franked)	3.5	3,566

When making payment of the final dividend for 2010 and the interim dividend for 2011 from current year profits, the Company has announced that these dividends are fully franked for Australian Income Tax purposes. The Company has sufficient franking credits available to fully frank these dividends. However as a consequence of the amendments to the Corporations Act 2001 on the 28 June 2010 relating to the payment of dividends, the Commissioner of Taxation has informally expressed a preliminary view in an ATO Draft Fact Sheet dated 21 June 2011, which states that 'where a company's net assets are less than its share capital and the company debits a dividend to an account such as accumulated losses, a dividend will be sourced indirectly from share capital and will be unfrankable.'

The ATO Draft Fact Sheet has not addressed the circumstances where a company is paying a dividend from current period profits and Homeloans considers that this is an appropriate basis on which to distinguish the preliminary view of the ATO. The Board is aware of a listed public company in similar circumstances receiving a positive private ruling confirming that dividends payable from current period profits are able to be franked and we will be seeking an ATO ruling on this matter and will inform shareholders of the outcome of the ATO ruling.

The ATO ruling when it is received will also be relevant to the final dividend to be paid by the Company on 30 September 2011.

PRINCIPAL ACTIVITIES

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

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

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

DIRECTORS' REPORT (CONTINUED)

OPERATING AND FINANCIAL REVIEW

Group Overview

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

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

Review of operations

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

Performance Indicators

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

Operating Results for the Year

On a statutory basis, net profit after tax for the year was $9,162,000, down from the previous financial year result of $12,253,000. On a normalised basis, after adjusting for the interest foregone as a result of the capital return in September 2010 and non cash adjustments, net profit after tax was $8,076,000, down marginally on the comparable prior year result of $8,374,000.

The Group has delivered another solid result amidst what continues to be challenging mortgage lending and credit markets. Despite the challenging market conditions, which has been characterised by a reduction in housing credit growth to 25 year lows and the level of competition for mortgage lending intensifying significantly, lending volumes of the Group's own branded product increased 21% on the previous financial year which assisted in a 10% increase in net fee and commission income to $16,083,000, up from the previous corresponding period result of $14,614,000.

The strong growth in lending volumes was supported by a national brand building advertising campaign, which resulted in a 4% increase in total operating expenses to $17,982,000. Operating expenses, excluding the advertising spend, reduced 2% reflecting a continued focus on improving operating efficiencies. In particular, efforts have been focused on streamlining the front end application and credit approval processes. This has allowed the Group to be more nimble and customer orientated, and supports our proposition to continue to provide a very real and refreshing alternative for home finance.

Achieving further efficiency improvements and ensuring we continue to be nimble and customer orientated will be key areas of focus for the Group over the year ahead.

During the financial year, the Group continued to expand its retail presence nationally in order to generate increased loan volumes. This resulted in two new retail offices being opened in Victoria and four in Queensland, with plans to open additional offices on the eastern seaboard and in Western Australia. Whilst the Group sees great opportunity in expanding its retail distribution footprint and capabilities, it remains committed to maintaining its strong position in the third party broker channel.

As previously reported, the company returned 35 cents per share to shareholders (totaling $35,670,000) via a reduction in capital in September 2010. The capital return impacted interest earnings over the last nine months of the financial year.

DIRECTORS' REPORT (CONTINUED)

In the current financial year, the Group's income tax expense includes benefits from changes to the tax consolidation legislation that were enacted in May 2010. The benefit recognised in the financial statements is $670,000 (2010: $2,458,000).

The Group has also made a non cash adjustment in the current year financial result relating to the "Securitisation of Mortgages" segment. The loans within the RMT SPV's generated solid cashflows during the year and this is expected to continue into the future. In light of this, the Group has recognised a gain on re-estimating cash flows on loans and advances using the original effective interest rate. The adjustment is a gain after tax of $415,000 (2010: $603,000).

These two adjustments made in the current financial year, which total $1,085,000 and which represent a net gain after tax (2010: net gain after tax of $3,061,000), have been adjusted from the statutory net profit after tax result to arrive at the "normalised" net profit after tax result stated above.

The Group's warehouse facility has been extended for a further 12 months to 30 June 2012 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility. Developments across the global economy in recent months have again created volatility and a degree of uncertainty within credit markets. It should be noted that the warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income. The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

The Group expects the challenges presented by current market conditions to continue at least over the first half of the new financial year but is maintaining a positive outlook. The Board is confident the environment will present opportunities for the Group to continue to grow and differentiate itself in the market. The Group will continue to work closely with its wholesale funding partners to improve and expand its product offering and explore opportunities to grow its distribution capabilities.

The Group has maintained strong capital reserves over the course of the financial year. Having returned $35,670,000 of capital to shareholders during the year, the Company has maintained good levels of residual cash reserves which continue to be supported by strong operating cashflows emanating from underlying earnings. The Company also remains free of any recourse debt facilities having repaid these in full in the prior year. The Board believes the ongoing cash reserves will be more than sufficient to meet the Group's ongoing funding requirements including future business development and investment.

Summarised operating results are as follows:

	2011	
	Revenues $'000	Results $'000
Operating segments Origination and Management	36,800	4,462
Securitisation of Mortgages	37,278	8,131
Non-segment and unallocated expenses	-	(216)
Group revenue and profit from operating activities before income tax expense	74,078	12,377

DIRECTORS' REPORT (CONTINUED)

Shareholder Returns

Basic earnings per share on a statutory basis (i.e. after non-cash adjustments) was 8.96 cents.

	2011	2010	2009	2008 [1]	2007 [1]
Basic earnings per share (cents) before non-cash adjustments	7.90	9.17	8.38	4.64	3.44
Basic earnings per share (cents) after non-cash adjustments	8.96	12.21	7.20	(12.42)	3.44
Return on assets (%)	1.8%	1.8%	0.9%	(1.2%)	0.2%
Return on equity (%)	20.9%	18.6%	11.0%	(20.8%)	2.9%
Dividend payout ratio (%)	67.5%	57.7%	96.4%	(16.1%) [2]	97.9% [3]

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

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

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

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

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

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

Liquidity and Capital Resources

The Group's Statement of Cash Flows illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2011 of $36,632,000 (2010: Decrease of $16,259,000) due to the return of capital made in September 2010.

Operating cash flow includes cash available to the investors in the special purpose vehicles (SPV) of RMT, which is maintained in the trust cash collections accounts. The balance of cash in these cash collections accounts is not available to the Group. The movement in these cash balances during the financial year was negative $2,627,000 (2010: negative movement of $7,449,000). Therefore, if the RMT SPV's had not been consolidated, total Group operating cashflow would have been $6,779,000 (2010: 10,520,000).

The Group maintains sufficient capital reserves to meet ongoing funding requirements. In addition to solid cash reserves, the Group also has an overdraft facility of $900,000 which was unutilised at 30 June 2011. The Residential Mortgage Trust has a warehouse facility of $350,000,000 as at 30 June 2011 (2010: $400,000,000) drawn to $309,373,000 at 30 June 2011 (2010: $390,753,000).

Asset and capital structure

Profile of Debts	2011 $'000	2010 $'000
The profile of the Group's debt finance is as follows:		
Bank loans – secured	309,373	390,753
Due to bondholders	70,381	111,591
Loans from funders	3,254	3,818
	383,008	506,162

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

DIRECTORS' REPORT (CONTINUED)

Capital Expenditure

There has been a decrease in cash due to the purchase of equipment during the year ended 30 June 2011 of $299,000 compared to $208,000 in the year ended 30 June 2010.

Risk Management

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

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

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

The Managing Director and Chief Financial Officer periodically provide formal statements to the Board that in all material aspects:

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 29th August 2011, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2011 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2011 financial statements. The final dividend is payable on 30th September 2011.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued shares

As at 30 June 2011, there were 125,000 (2010:1,177,500) unissued ordinary shares under options. During the period between the reporting date and the date of completion of the financial statements, no shares have been issued as a result of options being exercised, leaving a balance of 125,000 unissued shares under options as at the date of this report.

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

1,052,500 ordinary shares were issued as a result of the exercise of options during the year under review. No options were forfeited during the year on resignation of staff.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

(a) The liability arises out of conduct involving a willful breach of duty; or

(b) There has been a contravention of Sections 182 or 183 of the Corporations Act 2001,

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

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

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 Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company and Group receiving the highest remuneration.

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

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

Directors

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

Five Highest Remunerated Executives

L.McDonald	Head of Credit/Underwriting
A.Carn	General Manager – Third Party Distribution
C.Matthews	Chief Financial Officer
S.McWilliam	General Manager – Funding and Operations
G Mitchell	General Manager – Retail Sales

Remuneration philosophy

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

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

Compensation policy

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

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

In addition, all executives are entitled to annual bonuses payable upon the achievement of KPI's and annual corporate profitability measures, the most important being return on shareholder's equity. Details of company performance and shareholder returns are discussed on page 22 of this report.

The Company has a policy to ensure executives and directors cannot enter into contracts to hedge their exposure to options granted as part of their remuneration package.

Nomination and Remuneration Committee

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

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

Remuneration structure

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

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.

DIRECTORS' REPORT (CONTINUED)

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

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits on. The remuneration of non-executive directors for the period ended 30 June 2011 and 30 June 2010 is detailed in Table 1 on page 20.

Executive remuneration

Objective

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

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

Structure

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

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 20 details the variable component of the Key Management Personnel, including the five highest remunerated executives, of the Company and the Group.

Fixed remuneration

Objective

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

Structure

The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the Key Management Personnel, including the five highest remunerated executives, of the Company and the Group are detailed in Table 1 on page 20.

Variable remuneration — Short term incentive (STI)

Objective

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

Structure

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

STI Bonus for 2010 and 2011 financial years

For the 2010 financial year, 100% of the STI cash bonus pool of $640,000 as previously accrued in that period was paid in the 2011 financial year. This amount comprised a cash bonus of $430,000, including $200,000 for the five highest remunerated executives in that year, and a "special cash bonus" of $210,000, including $170,000 for the five highest remunerated executives in that year. The remuneration committee determined the STI payments for the 2011 financial year in August 2011. The STI cash bonus for the 2011 financial year is $450,000, which includes $200,000 for the five highest remunerated executives and will be paid in the 2012 financial year.

Variable remuneration — Long term incentive (LTI)

Objective

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

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

Structure

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

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

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

LTI Cash Bonus for the 2010 financial year

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

The maximum amount to be paid in December 2011 is $157,500, which includes $117,500 for the five highest remunerated executives. The minimum amount, based on the unlikely scenario of all relevant executives being no longer employed by the Company at the payment date, is nil.

Employment contracts

Managing Director

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

During the financial year, in his role as Executive Chairman, Mr. Holmes was paid a base annual salary of $191,000. While acting in this role, Mr. Holmes is not entitled to any STI or LTI, nor will he be entitled to any termination benefits.

Other executives

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

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

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

Upon termination all vested options remain in place.

No executives are employed under a fixed term contract.

DIRECTORS' REPORT (CONTINUED)

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

Table 1: Remuneration for the year ended 30 June 2011 and 30 June 2010

		Short term			Post employment	Termination benefits	Long Term	Share – based Payment	Total	% performance related	% option related
		Salary & Fees	Cash Bonus [3]	Non-monetary benefits	Superannuation		Incentive Plans [4]	Options			
Executive directors											
T.A.Holmes	2011	191,339	-	6,220	17,220	-	-	-	214,779	0.00%	0.00%
	2010	350,000	-	6,695	31,500	-	-	-	388,195	0.00%	0.00%
Non- executive directors											
R.P.Salmon	2011	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
	2010	50,000	-	6,695	-	-	-	-	56,695	0.00%	0.00%
R.N.Scott	2011	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
	2010	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
B.R.Benari [1]	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
	2010	-	-	-	-	-	-	-	-	0.00%	0.00%
A.L. Hall [2]	2011	-	-	-	-	-	-	-	-	0.00%	0.00%
	2010	-	-	-	-	-	-	-	-	0.00%	0.00%
Other Key Management Personnel											
L. McDonald	2011	185,000	40,000	9,915	20,970	-	8,000	-	263,885	18.19%	0.00%
	2010	174,374	60,000	8,917	15,694	-	8,000	-	266,985	25.47%	0.00%
A.Carn	2011	235,000	40,000	9,915	26,235	-	31,500	-	342,650	20.87%	0.00%
	2010	235,000	92,500	8,917	19,800	-	21,000	-	377,217	30.09%	0.00%
C.Matthews	2011	220,000	40,000	-	25,290	-	21,000	-	306,290	19.92%	0.00%
	2010	171,926	92,500	-	15,473	-	21,000	-	300,899	37.72%	0.00%
S.McWilliam	2011	190,000	40,000	-	21,600	-	10,000	-	261,600	19.11%	0.00%
	2010	175,000	75,000	-	15,750	-	10,000	340	276,090	30.91%	0.12%
G.Mitchell	2011	205,000	40,000	6,220	21,420	-	8,000	-	280,640	17.10%	0.00%
	2010	175,000	50,000	6,695	15,750	-	8,000	340	255,785	22.81%	0.13%
Totals	2011	1,333,839	200,000	32,270	132,735	-	78,500	-	1,777,344		
	2010	1,388,800	370,000	37,919	113,967	-	68,000	680	1,979,366		

DIRECTORS' REPORT (CONTINUED)

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

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

3 Cash bonuses shown in the current financial year represent cash bonus amounts determined in respect of performance in the current financial year which will be paid during the year ended 30 June 2012. The cash bonuses shown in the year ended 30 June 2010 include (i) cash bonus amounts determined in respect of performance in that year which were paid during the year ended 30 June 2011 and (ii) "special cash bonus" amounts determined in respect of performance which were paid in December 2010.

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

Table 2:

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

There were no options granted in the current year that affect remuneration for the year ended 30 June 2011 (2010: no options granted).The following table summarises terms and conditions of options vested during that year.

No options vested during the year ended 30 June 2011.

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

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

Table 3:

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

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

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

DIRECTORS' REPORT (CONTINUED)

30 June 2010	Value of options at date of exercise [1]	Value of options lapsed during the year
L. McDonald	13,500	-
S. McWilliam	10,500	-
Total	24,000	-

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

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

Table 4:

Shares issued on exercise of options

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

Company performance and shareholder returns

Basic earnings per share on a statutory basis (i.e. after non-cash adjustments) was 8.96 cents.

	2011	2010	2009	2008 [1]	2007 [1]
Basic earnings (loss) per share (cents) after non-cash adjustments	8.96	12.21	7.20	(12.42)	3.44
Return on assets (%)	1.8%	1.8%	0.9%	(1.2%)	0.2%
Return on equity (%)	20.9%	18.6%	11.0%	(20.8%)	2.9%
Dividend payout ratio (%)	67.5%	57.7%	96.4%	(16.1%)	97.9%
Share price (cents)	62.0	70.0	55.0	48.0	56.5
Dividends (cents)	6.0	7.0	7.0	2.0	3.7

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

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

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

End of Remuneration Report

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit Committee	Nominations and Remuneration Committee
Number of meetings held:	12	2	1
Number of meetings attended:			
T. A. Holmes	12	-	-
R. P. Salmon	12	2	1
R. N. Scott	12	2	1
B.R. Benari	12	2	1
A. Hall	12	2	1

Committee Membership

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

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

Audit

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

Nomination and Remuneration Committee

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

ROUNDING

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Non-Audit Services

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

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Executive Chairman

Perth, 22 September 2011

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's independence declaration to the Directors of Homeloans Limited

In relation to our audit of the financial report of Homeloans Limited and its controlled entities for the year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
22 September 2011

CORPORATE GOVERNANCE STATEMENT

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

This statement reports against the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" released in August 2007 and including 2010 amendments. As required by the ASX Listing Rules, this statement sets out the extent to which Homeloans Limited has followed the Principles or, where appropriate, indicates a departure from them with an explanation.

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

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

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegations

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

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

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

Management responsibility

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

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

Executive performance assessment

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

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

Principle 2 – Structure the Board to add value

Membership of the Board

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

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

Name	Position	Term in Office
T.A Holmes	Executive Chairman	10yrs 11 months
R.P Salmon	Non – Executive Director	10yrs 11 months
R.N Scott	Non – Executive Director	10yrs 11 months
B.R Benari	Non – Executive Director	4yrs 5 months
A.L Hall	Non – Executive Director	2yrs 11 months

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

Nomination and Appointment of New Directors

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

Procedure for the selection and appointment of new directors:

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

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

Retirement and re-election of Directors

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

During the year, Mr R.P Salmon and Mr B.R Benari retired from the Board and were re-elected at the 2010 annual general meeting.

Succession Planning

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

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

Review of Board performance

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

Director independence

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

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

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

The Board does not consist of a majority of independent directors. The Board of Directors is of the opinion that the company is actually benefiting from having both the Company's founders give of their experience in the industry and have a financial interest as well as leveraging the broad experience in the mortgage lending industry of other directors on the board.

Conflict of Interest

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

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

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

Board Access to Information and Advice

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

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

Board Committees

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

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

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

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

Principle 3 – Promote ethical and responsible decision-making

Code of Conduct

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

Diversity Policy

The Company is committed to managing diversity as an employer by ensuring it maintains a diverse and skilled workforce, leading to continuous improvement in service delivery and achievement of corporate goals. The Company recognises the value of having a diverse workforce and supports its commitment by demonstrating the key corporate values of respect, integrity, honesty and personal commitment.

The Company's "Diversity Policy", which is available on the Company's website, outlines the key objectives in managing diversity and the strategies undertaken to achieve these objectives.

The Diversity Policy also summarises the measurable objectives for achieving gender diversity. Progress towards achieving these objectives is assessed annually by the board. The objectives, and progress as at 30 June 2011, are as follows:

Gender Diversity Objectives	Progress Update as at 30 June 2011
1. Target the proportion of female employees within a range of 40-60% of total Group employees.	The proportion of female employees stands at 57%, within the targeted range.
2. Target the percentage of women in management positions (including executive managers) at a level of at least 25%.	The percentage of women in management positions stands at 33%, above the target level.
3. Target total female representation at executive level of two by June 2015.	Female representation at executive level stands at one.
4. Aim to have one female director on the Board by June 2015.	There were no female directors on the board as at 30 June 2011.

Principle 4 – Safeguard integrity in financial reporting

Integrity of Homeloans financial reporting

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

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

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

The primary functions of the Audit Committee are to:

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

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

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

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

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

Independent external audit

The Company requires its independent external audit to:

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

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

Principle 5 – Make timely and balanced disclosure

Continuous disclosure policy

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

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

Principle 6 – Respect the rights of shareholders

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

Principle 7 – Recognise and manage risk

Risk management and compliance

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

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

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

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

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

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

Assurance

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

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

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

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

Principle 8 – Remunerate fairly and responsibly

The Board Remuneration Committee

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

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

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

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

ASX Corporate Governance Council Best Practice Recommendations

Homeloans Limited complies with the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 2 August 2007 and including 2010 amendments (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2011 and at the date of this report are outlined in the Corporate Governance Statement.

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

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

ASX Corporate Governance Council Best Practice Recommendations (continued)

3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Comply
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply
Principle 4:	**Safeguard integrity in financial reporting** Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.	
4.1	The board should establish an audit committee.	Comply
4.2	The audit committee should be structured so that it: · consists only of non-executive directors · consist of a majority of independent directors · is chaired by an independent chair, who is not chair of the board · has at least three members	 Comply Not comply Comply Comply
4.3	The audit committee should have a formal charter.	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply
Principle 5:	**Make timely and balanced disclosure** Companies should promote timely and balanced disclosure of all material matters concerning the company.	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply
Principle 6:	**Respect the rights of shareholders** Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply
Principle 7:	**Recognise and manage risk** Companies should establish a sound system of risk oversight and management and internal control.	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Comply

ASX Corporate Governance Council Best Practice Recommendations (continued)

7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply
Principle 8:	**Remunerate fairly and responsibly** Companies should ensure that the level and composition of remuneration is sufficient and responsible and that its relationship to performance is clear.	
8.1	The board should establish a remuneration committee.	Comply
8.2	The remuneration committee should be structured so that it: · consists of a majority of independent directors · is chaired by an independent chair · has at least three members.	 Not comply Not comply Comply
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

		CONSOLIDATED		HOMELOANS LIMITED	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
ASSETS					
Cash and cash equivalents	8	20,960	57,592	7,650	41,340
Receivables	9	5,501	5,296	16,537	19,028
Loans and advances to customers	11	370,579	489,738	-	-
Other financial assets	12	37,212	34,393	26,044	23,450
Investment in an associate	10	351	289	297	235
Plant and equipment	13	887	1,011	887	1,011
Investment in controlled entities	14	-	-	8,335	8,391
Goodwill	15	12,565	12,565	-	-
TOTAL ASSETS		448,055	600,884	59,750	93,455
LIABILITIES					
Payables	17	6,437	7,152	14,980	17,280
Interest-bearing liabilities	18	383,008	506,162	3,249	3,811
Other financial liabilities	19	14,588	13,238	6,825	6,325
Derivative financial liabilities	22	206	427	-	-
Lease incentives	20	176	258	176	258
Deferred income tax liabilities	5	4,764	3,784	2,796	1,961
Provisions	21	409	640	409	640
TOTAL LIABILITIES		409,588	531,661	28,435	30,275
NET ASSETS		38,467	69,223	31,315	63,180
EQUITY					
Issued capital	23	64,481	98,283	64,481	98,283
Reserves	23	816	816	816	816
Accumulated losses	23	(26,830)	(29,876)	(33,982)	(35,919)
TOTAL EQUITY		38,467	69,223	31,315	63,180

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 2011

		CONSOLIDATED		HOMELOANS LIMITED	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest income	4(a)	40,157	46,691	3,439	4,477
Interest expense	4(d)	(28,171)	(31,022)	(975)	(1,249)
Net interest income		11,986	15,669	2,464	3,228
Fees and commission income	4(b)	32,940	29,723	23,603	20,308
Fees and commission expense	4(e)	(16,857)	(15,109)	(11,174)	(10,198)
Other operating income		981	922	11,232	19,405
General administrative expenses		(7,643)	(6,785)	(7,626)	(6,671)
Employee benefits	4(g)	(10,224)	(10,381)	(10,224)	(10,360)
Other operating expenses	4(h)	(115)	(139)	(42)	(62)
Share of profit of associate		182	196	182	196
Impairment gain/(loss)	4(i)	533	(874)	-	-
Gain on loans and advances recognised at amortised cost	4(k)	594	861	-	-
Profit before income tax		12,377	14,083	8,415	15,846
Income tax (expense)/benefit	5	(3,215)	(1,830)	(362)	1,587
Net profit after tax for the year		9,162	12,253	8,053	17,433
Total comprehensive income for the year attributable to members of Homeloans Limited		9,162	12,253	8,053	17,433
Basic earnings per share (cents per share)	6	8.96	12.21		
Diluted earnings per share (cents per share)	6	8.95	12.18		

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 2011

	Issued Capital $'000	Accumulated Losses $'000	Employee Option Reserve $'000	Total $'000
CONSOLIDATED				
At 1 July 2009	**97,337**	**(33,063)**	**816**	**65,090**
Profit for the year	-	12,253	-	12,253
Total comprehensive income	-	12,253	-	12,253
Exercise of options	983	-	-	983
Share buyback	(29)	-	-	(29)
Share-issuance costs	(8)	-	-	(8)
Equity dividends	-	(9,066)	-	(9,066)
At 1 July 2010	**98,283**	**(29,876)**	**816**	**69,223**
Profit for the year	-	9,162	-	9,162
Total comprehensive income	-	9,162	-	9,162
Exercise of options	485	-	-	485
Dividend reinvestment plan	1,383	-	-	1,383
Return of capital *	(35,670)	-	-	(35,670)
Equity dividends	-	(6,116)	-	(6,116)
At 30 June 2011	**64,481**	**(26,830)**	**816**	**38,467**

* A return of capital of 35 cents per share was made to shareholders during the period.

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	Issued Capital $'000	Accumulated Losses $'000	Employee Option Reserve $'000	Total $'000
PARENT				
At 1 July 2009	**97,337**	**(44,286)**	**816**	**53,867**
Profit for the year	-	17,433	-	17,433
Total comprehensive income	-	17,433	-	17,433
Exercise of options	983	-	-	983
Share buyback	(29)	-	-	(29)
Share-issuance costs	(8)	-	-	(8)
Equity dividends	-	(9,066)	-	(9,066)
At 1 July 2010	**98,283**	**(35,919)**	**816**	**63,180**
Profit for the year	-	8,053	-	8,053
Total comprehensive income	-	8,053	-	8,053
Exercise of options	485	-	-	485
Dividend reinvestment plan	1,383	-	-	1,383
Return of capital *	(35,670)	-	-	(35,670)
Equity dividends	-	(6,116)	-	(6,116)
At 30 June 2011	**64,481**	**(33,982)**	**816**	**31,315**

* A return of capital of 35 cents per share was made to shareholders during the period.

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 2011

		CONSOLIDATED		HOMELOANS LIMITED	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash flows from operating activities					
Interest received		40,888	47,046	3,439	4,477
Interest paid		(27,022)	(31,977)	(970)	(1,247)
Loan fees and other income		31,082	31,307	37,265	40,492
Salaries and other expenses		(34,042)	(32,189)	(29,051)	(27,026)
(Repayments of)/proceeds from warehouse facility (i)		(81,380)	(125,990)	-	-
(Repayments to)/proceeds from bondholders (i)		(41,210)	(52,971)	-	-
Repayments from/net loans (advanced) from borrowers (i)		119,429	173,479	-	-
Income taxes paid		(3,593)	(5,634)	(3,593)	(5,634)
Net cash flows from operating activities	8	4,152	3,071	7,090	11,062
Cash flows from investing activities					
Purchase of plant and equipment		(299)	(208)	(299)	(208)
Net cash flows used in investing activities		(299)	(208)	(299)	(208)
Cash flows from financing activities					
Proceeds from issue of shares		485	983	485	983
Share buy back program		-	(29)	-	(29)
Share issuance costs		-	(8)	-	(8)
Proceeds from borrowings		967	1,768	967	1,768
Repayment of borrowings		(1,534)	(12,770)	(1,530)	(10,330)
Return of capital		(35,670)	-	(35,670)	-
Payment of dividends		(4,733)	(9,066)	(4,733)	(9,066)
Net cash flows used in financing activities		(40,485)	(19,122)	(40,481)	(16,682)
Net decrease in cash and cash equivalents		(36,632)	(16,259)	(33,690)	(5,828)
Add: Opening cash and cash equivalents brought forward		57,592	73,851	41,340	47,168
Closing cash and cash equivalents	8	20,960	57,592	7,650	41,340

(i) – The cash flows of the Group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the Group's operating cash flows. These cash flows are not available for the use of shareholders. The RMT SPV's generated negative operating cashflows of $2,627,000 (2010: negative $7,449,000) during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been $6,779,000 (2010: $10,520,000.)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Note 1: CORPORATE INFORMATION

The financial report of Homeloans Limited ("the Company) and its controlled entities ("the Group") for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on 22 September 2011.

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

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

(b) Statement of compliance

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

The accounting policies adopted are consistent with those of the previous financial year. From 1 July 2010, the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any new or amended Standards or Interpretations issued but not yet effective.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are 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. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 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. 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.	1 January 2013	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amendments many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	1 July 2011
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053.	1 July 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11* Joint Arrangements and AASB 12 *Disclosure of Interests in Other Entities.*	1 January 2013	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 *Fair Value Measurement.*	1 January 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards *– Presentation of Items of Other Comprehensive Income* [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change resulting from the amendments relates to the Statement of Comprehensive Income and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements. The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.	1 July 2012	1 July 2012
AASB 119 (Revised)	Employee Benefits	The main amendments to the standard relating to defined benefit plans are as follows :- • Elimination of the option to defer the recognition of actuarial gains and losses (the 'corridor method'); • Remeasurements (essentially actuarial gains and losses) to be presented in other comprehensive income; • Past service cost will be expensed when the plan amendments occur regardless of whether or not they are vested; and • Enhanced disclosures for Tier 1 entities. The distinction between short-term and other long-term employee benefits under the revised standard is now based on expected timing of settlement rather than employee entitlement. The revised standard also requires termination benefits (outside of a wider restructuring) to be recognised only when the offer becomes legally binding and cannot be withdrawn.	1 January 2013	1 January 2013

(c) Basis of consolidation

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(d) Business combinations

Business combinations (pre 1 July 2009)

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

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

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

Business combinations (post 1 July 2009)

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

Acquisition-related costs are expensed as incurred.

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

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

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

(e) Investment in associate

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(f) Leases

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

Operating leases

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

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

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

Finance leases

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

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

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

(g) Goodwill

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(h) Intangibles

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

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

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

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

(i) Share-based payment transactions

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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

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

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

(j) Revenue recognition

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

Origination and loan management business - Managed Loans

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

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

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

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

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

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 revenue is recognised. This represents the expected future trailing commissions receivable discounted to their net present value. The fair value of the trailing commission expense to brokers and commissioned staff is also recognised, being the future trailing commissions payable discounted to their net present value.

Securitisation of mortgages

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

(k) Borrowing costs

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(l) Cash and cash equivalents

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

(m) Receivables

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

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

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

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

(n) De-recognition of financial instruments

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

The Group utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being controlled entities under AASB 127 – Consolidated and Separate Financial Statements. These transactions do not meet the criteria under AASB 139 - Financial Instruments: Recognition and Measurement with respect to the de-recognition of financial instruments. Accordingly, the value of the securitised loans has been recorded in the Statement of Financial Position with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

(o) Recoverable amount of non-financial assets

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(p) Costs of establishing a SPV

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(q) Recoverable amount of financial assets

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

Financial assets carried at amortised cost

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

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

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

(r) Loans and advances

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(s) Plant and equipment

Cost and valuation

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

Depreciation

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

Plant and equipment – over 3 to 15 years.

Impairment

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

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

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

The recoverable amount of plant and equipment is the greater of a fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

(t) Trade and other payables

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

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

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

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

(u) Interest-bearing loans and borrowings

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Gains or losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised and also as well as through the amortisation process.

(v) Provisions

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

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

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

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

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

(w) Taxes

Income tax

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Tax consolidation legislation

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

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

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

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

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

(x) Goods and services tax (GST)

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

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

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

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

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

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

(y) Investments and other financial assets

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

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

Financial assets held for trading

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Available-for-sale investments

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

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

(z) Derivative financial instruments

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

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

(aa) Employee benefits

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

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

Employee benefits expenses and revenues arising in respect of the following categories:

Wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

(bb) Earnings per share

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

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

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

(cc) Issued Capital

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

(dd) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

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

Recovery of deferred tax assets

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

Consolidation of SPVs

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

Significant accounting estimates and assumptions

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

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

Impairment of goodwill

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Impairment losses on loans and advances

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

Future trailing commissions receivable and future trailing commissions payable.

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

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

	Year ended 30 June 2011	Year ended 30 June 2010
Prepayment rate	Ranging from 10.08% to 56.10% depending on the age of the loans	Ranging from 12.40% to 56.10% depending on the age of the loans
Discount rate	12.0%	12.0%

Some changes were made to the prepayment rates during the period. If these changes had not been made, the net profit before tax result would have been lower by $880,000.

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

There are a number of parameters that affect these calculations

- Loan balance
- Prepayment rate

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

(ee) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 3: OPERATING SEGMENTS

Identification of reportable segments

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

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

Types of products and services

Origination and management

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

Securitisation of mortgages

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

Accounting policies and inter-segment transactions

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

Corporate charges

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

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

- Finance costs
- Income tax

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Year ended 30 June 2011	*Origination and Management* $'000	*Securitisation of Mortgages* $'000	*Total* $'000
Revenue			
Interest Income	4,724	35,433	40,157
Fee and commission income	31,095	1,845	32,940
Other operating income	981	-	981
Total segment revenue from external	36,800	37,278	74,078
Inter-segment revenue	3,228	-	3,228
Total segment revenue	40,028	37,278	77,306
Inter-segment elimination			(3,228)
Total consolidated revenue			74,078
Result			
Segment results before impairment gain	4,462	7,004	11,466
Impairment gain	-	533	533
Gain on loans and advances recognised at amortised cost	-	594	594
Profit before tax and finance costs	4,462	8,131	12,593
Finance costs			(216)
Profit before income tax			12,377
Income tax expense			(3,215)
Net profit for the year			9,162
Assets and liabilities			
Segment assets (i)	69,724	378,331	448,055
Total assets			448,055
Segment liabilities (i)	21,286	383,242	404,528
Unallocated liabilities (tax balances)			5,060
Total liabilities			409,588
Other segment information			
Capital expenditure	299	-	299
Depreciation	423	-	423
Interest expense	1,793	26,378	28,171

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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

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

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 2011 (CONTINUED)

Note 4: REVENUES AND EXPENSES

		CONSOLIDATED		HOMELOANS LIMITED	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
	REVENUE AND OTHER INCOME				
(a)	**Interest income**				
	Interest received – other person/corporations	40,157	46,691	3,439	4,477
(b)	**Fee and commission income**				
	Mortgage origination income	11,094	9,794	8,223	6,751
	Loan management fees	21,846	19,929	15,380	13,557
		32,940	29,723	23,603	20,308
(c)	**Other operating income**				
	Rental income	725	761	725	736
	Management Fees – Wholly owned controlled entities	-	-	4,748	5,300
	Dividend received from subsidiary	-	-	5,500	13,200
	Other	256	161	259	169
		981	922	11,232	19,405
		74,078	77,336	38,274	44,190
	EXPENSES				
(d)	**Interest expense**				
	Interest on bank loan	-	217	-	187
	Interest on other loans	216	211	216	211
	Interest recognised on trailer commission payable	1,576	1,683	759	851
	Interest payable to bondholders	4,147	5,338	-	-
	Interest payable to warehouse facility provider	22,232	23,573	-	-
		28,171	31,022	975	1,249
(e)	**Fee and commission expense**				
	Mortgage origination expense	8,138	8,357	5,509	5,683
	Loan management expense	8,719	6,752	5,665	4,515
		16,857	15,109	11,174	10,198
(f)	**General administrative expenses**				
(i)	**Depreciation consists of:**				
	Depreciation and amortisation of:				
	Plant and equipment	423	382	423	382
		423	382	423	382

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(ii) Rent:	1,968	1,960	1,968	1,929
(g) Employee benefits				
Wages & salaries	8,263	7,887	8,263	7,840
Workers' compensation costs	26	31	26	31
Annual leave provision	(27)	92	(27)	92
Long service leave provision	3	156	3	181
Employee incentive payments	518	858	518	858
Payroll tax	680	493	680	496
Other employee costs	761	864	761	862
	10,224	10,381	10,224	10,360
(h) Other operating expenses	115	139	42	62
(i) Impairment gain/(loss) – loans and advances [i]	533	(874)	-	-
(j) Gain on derivative financial asset classified as held for trading	221	634	-	-
(k) Gain on loans and advances recognised at amortised cost [ii]	594	861	-	-

[i] *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 $533,000 has been recognised which represents the reversal of impairment losses due to insurance recoveries and amounts written off. In the 2010 financial year, an impairment loss of $874,000 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 11 for further disclosure on allowance for impairment losses.

[ii] *Gain on loans and advances recognised at amortised cost*

The gain of $594,000 (2010: $861,000) in loans and advances recognised at amortised cost reflects a re-estimation of cash flows to be generated from the loans within the RMT SPV's using the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 5: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
The major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
Current income tax charge	2,881	3,807	163	245
Adjustments in respect of current income tax of previous years	24	96	34	96
Benefits received from changes to the tax consolidation regime	(670)	(2,458)	(670)	(2,458)
Deferred income tax				
Relating to origination and reversal of temporary differences	980	385	835	530
Income tax expense/(credit) reported in the Statement of Comprehensive Income	3,215	1,830	362	(1,587)
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	12,377	14,083	8,415	15,846
At the Group's statutory income tax rate of 30% (2010: 30%)	3,713	4,225	2,524	4,754
Entertainment expenses	11	9	11	7
Difference in prior year tax (paid during the year)	24	96	34	96
Other	137	(42)	113	(26)
Fully franked dividend received from subsidiary	-	-	(1,650)	(3,960)
Benefit received from changes to the tax consolidation regime	(670)	(2,458)	(670)	(2,458)
Income tax expense/(credit) reported in the consolidated Statement of Comprehensive Income	3,215	1,830	362	(1,587)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	Statement of Financial Position		Statement of Comprehensive Income	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Deferred tax income				
Deferred income tax at 30 June related to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Effective interest adjustments on loans and advances	(170)	(240)	(70)	(99)
Lease incentives	-	(13)	(13)	(14)
Leased assets	-	(13)	(13)	(93)
Accrued income	(40)	(68)	(28)	3
Trailing commissions receivable	(11,169)	(10,304)	865	101
Deferred income tax liabilities	(11,379)	(10,638)		
Deferred tax assets				
Losses available for offset against future taxable income	517	742	225	249
Accrued expenses	238	600	362	(161)
Effective interest adjustments on loans and advances	40	52	12	15
Allowance for impairment losses – loans and advances to customers	633	951	318	(87)
Derivative instrument	62	128	66	190
Lease incentives	53	77	24	25
Provisions	290	297	7	(71)
Capital items	72	35	(37)	32
Trailing commissions payable	4,381	3,972	(409)	295
Benefit received from changes to the tax consolidation regime	329	-	(329)	-
Deferred income tax assets	6,615	6,854		
Net deferred income tax liabilities	(4,764)	(3,784)		
Deferred tax expense			980	385

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	Statement of Financial Position		Statement of Comprehensive Income	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
PARENT				
Deferred tax liabilities				
NPV future trailing commissions receivable	(7,818)	(7,021)	797	322
Lease incentives	-	(13)	(13)	(14)
Leased assets	-	(13)	(13)	(93)
Accrued income	(40)	(68)	(28)	3
Deferred income tax liabilities	(7,858)	(7,115)		
Deferred tax assets				
Losses available for offset against future profits	517	742	225	249
NPV future trailing commissions payable	2,052	1,898	(154)	254
Accrued expenses	237	594	357	(166)
Lease incentives	53	77	24	25
Provisions	1,802	1,808	7	(82)
Capital items	72	35	(38)	32
Benefit received from changes to the tax consolidation regime	329	-	(329)	-
Deferred income tax assets	5,062	5,154		
Net deferred income tax liabilities	(2,796)	(1,961)		
Deferred tax expense			835	530

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

Nature of the tax funding agreement

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

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

Tax consolidation contributions/distribution

Homeloans has recognised the following amounts as tax consolidation adjustments:

	CONSOLIDATED	
	2011	2010
	$'000	$'000
Total increase to tax payable to Homeloans Limited	2,718	3,562
Total increase to intercompany assets of Homeloans Limited	2,718	3,562

Taxation of Financial Arrangements

The *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* received royal assent on 26 March 2009 and provides a new regime for the tax treatment of financial arrangements. The new rules apply from 1 July 2010.

The Group has assessed the impact of these changes on the Group's tax position and confirmed that the current tax treatment adopted is consistent with the required treatment under the new rules. Therefore, no impact has been recognised in the financial statements and no adjustments have been made to the deferred tax and income tax balances at 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 6: EARNINGS PER SHARE

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

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

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

	CONSOLIDATED	
	2011	2010
	$'000	$'000
Net profit attributable to ordinary equity holders of the parent	9,162	12,253
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	9,162	12,253
Weighted average number of ordinary shares (excluding reserved shares) for basic and diluted earnings per share	102,244,033	100,314,176
Effect of dilution: Share options	90,774	251,167
Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS	102,334,807	100,565,343

There is an impact from 125,000 options outstanding at 30 June 2011 on the earnings per share calculation because they are dilutive for the current year.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 7: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Declared and paid during the year:				
Franked dividends:				
Fully franked final dividend on ordinary shares for 2010 - 3.5 cents per share (2009 – 5.5 cents)	3,566	5,532	3,566	5,532
Fully franked interim dividend on ordinary shares for 2011 – 2.5 cents per share (2010: 3.5 cents)	2,550	3,534	2,550	3,534
	6,116	9,066	6,116	9,066
Proposed and not recognised				
Dividends on ordinary shares:				
Final franked dividend for 2011 – 3.5 cents (2010: 3.5 cents)	3,633	3,534	3,633	3,534

Franking credit balance

	HOMELOANS LIMITED	
	2011 $'000	2010 $'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% (2010: 30%)	3,369	2,390
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	296	1,708
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
	3,665	4,098
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(1,557)	(1,514)
	2,108	2,584

The tax rate at which dividends have been franked is 30% (2010: 30%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'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	7,776	41,781	7,650	41,340
RMT Cash Collections Account *	11,010	12,938	-	-
Restricted Cash **	2,174	2,873	-	-
	20,960	57,592	7,650	41,340

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	9,162	12,253	8,053	17,433
Adjustments for:				
Impairment gain/(loss)	(516)	874	-	-
Depreciation	423	382	423	382
Dividends received from associate	65	69	65	69
Share of profit in associate – net of tax	(127)	(138)	(127)	(138)
Changes in assets and liabilities:				
(Increase)/decrease in receivables	1,147	39	3,034	(2,748)
Decrease in derivative financial liabilities/assets	(220)	(634)	-	-
Decrease in due to borrowers	119,675	172,646	-	-
Decrease in due to bondholders	(41,210)	(52,971)	-	-
Decrease in due to warehouse facility	(81,380)	(125,990)	-	-
Increase in deferred tax liabilities	980	385	835	530
Decrease in current tax liability	(1,412)	(4,190)	(1,412)	(4,190)
Increase/(decrease) in trade and other payables	(2,204)	71	(3,550)	(576)
Increase/(decrease) in provisions	(231)	275	(231)	300
Net cash from operating activities	4,152	3,071	7,090	11,062

Disclosure of financing facilities

Refer to note 18.

Disclosure of non-cash financing and investing activities

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 9: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Fees receivables				
Non-related parties (i)	2,399	2,173	1,679	1,516
Related parties (ii) - wholly owned controlled entity	-	-	14,484	16,957
	2,399	2,173	16,163	18,473
Accrued interest (iii)	1,144	1,506	-	-
Prepayments (iv)	514	721	334	457
Last days collections receivable (v)	1,399	805	-	-
Other	45	91	40	98
	5,501	5,296	16,537	19,028

Terms and conditions relating to the above financial instruments

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

(ii) Details of the terms and conditions of related party receivables are set out in note 26. No impairment was recognised in the current or prior financial year. The balance is considered fully collectible.

(iii) Accrued interest is due and payable within 30 days.

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

(v) Last days collections receivable represents amounts received within the RMT SPV's on the last day of the reporting period and not cleared in the bank until the first day of the next financial period.

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

Note 10: INVESTMENT IN AN ASSOCIATE

	CONSOLIDATED		HOMELOANS	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Investment in National Mortgage Brokers Pty Limited (i)	351	289	297	235
	351	289	297	235

(i) The Group has a 26.5% (2010:26.5%) interest in National Mortgage Brokers Pty Limited ("nMB"). nMB was incorporated in Australia and its principal activity is mortgage origination.

Carrying amount at the beginning of the year	289	220	235	166
Share of associates net profit after tax	127	138	127	138
Dividends received by the Group	(65)	(69)	(65)	(69)
Carrying amount at the end of the year	351	289	297	235

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 11: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Gross loans and advances to customers	372,690	492,908	-	-
Less: Allowance for impairment loss	(2,111)	(3,170)	-	-
	370,579	489,738	-	-

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**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Less than 1 year	110,767	155,814	-	-
1 – 2 years	77,266	105,981	-	-
2 – 3 years	54,101	72,292	-	-
3 – 4 years	38,013	49,444	-	-
4 - 5 years	26,793	33,901	-	-
> 5 years	65,750	75,476	-	-
Total	**372,690**	**492,908**	**-**	**-**

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Allowance for impairment loss - opening	3,170	2,878	-	-
Increased/(decreased) impairment charges	(533)	874	-	-
Amounts written off	(526)	(582)	-	-
Allowance for impairment loss - closing	2,111	3,170	-	-
Collective allowance	1,095	1,060	-	-
Specific allowance	1,016	2,110	-	-
	2,111	3,170	-	-

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 2011 (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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
1 - 3 months	3,544	9,041	-	-
3 - 6 months	2,505	2,104	-	-
> 6 months	2,829	358	-	-
Total	**8,878**	**11,503**	**-**	**-**

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Carrying amount of impaired loans	1,616	3,070	-	-
Less: Expected recoverable amount	(600)	(960)	-	-
Impairment loss	**1,016**	**2,110**	-	-

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

Collateral repossessed

As at 30 June 2011 the Group had 5 repossessed residential properties in possession being the security for RMT loans. The Group intends to sell these properties with the proceeds to go towards clearing the outstanding balance of the underlying RMT loans. The estimated value of the property is between $1,500,000 and $1,600,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 12: OTHER FINANCIAL ASSETS

	CONSOLIDATED 2011 $'000	CONSOLIDATED 2010 $'000	HOMELOANS LIMITED 2011 $'000	HOMELOANS LIMITED 2010 $'000
Future trailing commissions receivable (i)				
- Current	15,298	14,478	11,293	10,291
- Non-current	21,914	19,870	14,751	13,114
	37,212	34,348	26,044	23,405
Other	-	45	-	45
	37,212	34,393	26,044	23,450

Terms and conditions relating to the above financial instruments

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

Note 13: PLANT AND EQUIPMENT

	CONSOLIDATED Plant and equipment $'000	HOMELOANS LIMITED Plant and equipment $'000
Year ended 30 June 2011		
At 1 July 2010, net of accumulated depreciation and impairment	1,011	1,011
Additions	299	299
Depreciation charge for the year	(423)	(423)
At 30 June 2011, net of accumulated depreciation and impairment	887	887
At 30 June 2011		
Cost	6,338	6,338
Accumulated depreciation and impairment	(5,451)	(5,451)
Net carrying amount	887	887
Year ended 30 June 2010		
At 1 July 2009, net of accumulated depreciation and impairment	1,185	1,185
Additions	208	208
Depreciation charge for the year	(382)	(382)
At 30 June 2010, net of accumulated depreciation and impairment	1,011	1,011
At 30 June 2010		
Cost	6,040	6,040
Accumulated depreciation and impairment	(5,029)	(5,029)
Net carrying amount	1,011	1,011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 14: INVESTMENTS IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Investments at cost in controlled entities (Note 26)	-	-	21,331	21,387
Impairment allowance	-	-	(12,996)	(12,996)
	-	-	8,335	8,391

Note 15: GOODWILL

	CONSOLIDATED $'000	HOMELOANS LIMITED $'000
Year ended 30 June 2011		
At 1 July 2010, net of impairment	12,565	-
At 30 June 2011, net of impairment	12,565	-
At 30 June 2011		
Cost (gross carrying amount)	28,942	-
Less: Impairment loss	(16,377)	-
Net carrying amount	12,565	-
Year ended 30 June 2010		
At 1 July 2009, net of impairment	12,565	-
At 30 June 2010, net of impairment	12,565	-
At 30 June 2010		
Cost (gross carrying amount)	28,942	-
Less: Impairment loss	(16,377)	-
Net carrying amount	12,565	-

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

- Origination and Management
- Securitisation of Mortgages

Origination and Management

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

The assumed growth rate in settled loans over the period covered by the forecast is on average 8% (2010: 6%). 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 30% depending on types of loans and lenders (2010: 20% to 35%) and are based on actual experience. A terminal value of 8 times (2010: 8 times) was used for cash flows beyond 10 years reflecting industry averages.

The discount rate applied to cash flow projections is 12.5% (2010:12.5%) and is based on average discount rates for comparable businesses in the industry.

Securitisation of Mortgages

The total amount of goodwill allocated to the Securitisation of Mortgages Cash Generating Unit was written down to zero as at 30 June 2011.

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

	CONSOLIDATED					
	Origination and Management		Securitisation of Mortgages		Total	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Carrying amount of goodwill	12,565	12,565	-	-	12,565	12,565

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2011 and 30 June 2010

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

- Inflation – constant 3% per annum (2010: 3%) based on long-term expectations on inflation and is reviewed annually for changes in the market environment.
- Securitisation of Mortgages CGU pays to the Origination and Management CGU a management fee representing services provided by the latter to the Securitisation of Mortgages CGU. The management fee represents a portion of the total costs incurred by the Origination and Management CGU in undertaking certain relevant tasks and is calculated on a proportionate basis linked to origination activity and loan portfolio balances.
- A degree of reduction in the level of commission rates earned and paid as a result of market and competition driven influences.

Sensitivity to changes in assumptions

Origination and Management

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is considerably greater than its written down carrying value, management believes that reasonably possible changes in the key assumptions, such as a reduction in the average growth rate from 8% to 6% would not cause the recoverable amount of the unit to fall short of its carrying value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 16: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan exists where eligible employees of the Group, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently 4 members of this plan of whom 2 are current employees.

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

	2011		2010	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding at the beginning of the year	1,177,500	0.50	3,697,500	0.46
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(12,500)	0.35
Cancelled during the year	-	-	-	-
Exercised during the year	(1,052,500)	0.46	(2,507,500)	0.40
Outstanding at the end of the year	125,000	0.21	1,177,500	0.50
Exercisable at the end of the year	125,000	0.21	1,177,500	0.50

Options held at the beginning of the reporting period:

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

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

^^ Average share price on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2011 (2010: nil).

Options exercised:

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

Date	Number of Options	Range of exercise price $	Weighted average share price at grant $	Weighted average share price at exercise $
30 June 2011	1,052,500	0.21 - 0.56	0.51	0.89
30 June 2010	2,507,500	0.35 - 0.56	0.39	0.68

Options held as at the end of the year:

The following table summarises information about options held by employees and other related parties as at 30 June 2011:

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

^^ Average share price on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 17: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade payables (i)	542	573	546	577
Payable to related parties:				
- controlled entity (ii)	-	-	11,916	11,930
Accrued commissions (iii)	478	441	478	441
Sundry creditors and accruals (iv)	2,258	3,122	1,744	2,624
Current income tax payable	296	1,708	296	1,708
Interest payable (v)	2,863	1,308	-	-
	6,437	7,152	14,980	17,280

Terms and conditions relating to the above financial instruments:

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

Refer to note 24 for fair value disclosure.

Note18: INTEREST-BEARING LIABILITIES

		CONSOLIDATED		HOMELOANS LIMITED	
		2011	2010	2011	2010
	Maturity	$'000	$'000	$'000	$'000
Bank loans					
Bank Overdraft (i)		-	-	-	-
Warehouse facility (ii)	30/06/2012	309,373	390,753	-	-
Non-bank loans					
Bonds (iii)	2037	70,381	111,591	-	-
Loans from funders (iv)	2011 - 2016	3,254	3,818	3,249	3,811
		383,008	506,162	3,249	3,811

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Terms and conditions relating to the above financial instruments:

(i) The Company has a bank overdraft of $900,000 which is not utilised at year end. The bank overdraft is repayable on demand. Interest is charged at the bank's floating rate. The overdraft is secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities

(ii) 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 6.21% (2010: 5.39%). All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurers must be rated at least A+ by Standard & Poor's and A1 by Moody's. The RMT Warehouse facility is a rolling 12 month facility provided by 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 2012. The terms of the extension, which is effective from July 2011, includes a reduction in the funding margin payable to the warehouse provider. The warehouse limit was reduced to $350,000,000 in February 2011 (the limit as at 30 June 2010 was $400,000,000). The RMT warehouse facility is supported by cash collateral reserves. The amount required to be held in cash collateral reserves is determined as the greater of: 50% of the balance of loans greater than 30 days past due over and above a threshold of 3.00%; and a floor of 0.70% of the total balance of loans in the Warehouse.

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

(iii) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. Interest is recognised at an effective rate 4.98% (2010: 4.04%).

(iv) Some of the funders used by the company and its controlled entities provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then paid back via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The company recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 6.13% (2010: 5.43%)

Fair value disclosures

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Financing facilities available

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Total Facilities				
- bank overdraft	900	900	900	900
- RMT warehouse facility (refer note 18 (ii))	350,000	400,000	-	-
	350,900	400,900	900	900
Facilities used at reporting date				
- bank overdraft	-	-	-	-
- RMT warehouse facility (refer note 18 (ii))	309,373	390,753	-	-
	309,373	390,753	-	-
Facilities unused at reporting date				
- bank overdraft	900	900	900	900
- RMT warehouse facility (refer note 18 (ii))	40,627	9,247	-	-
	41,527	10,147	900	900

Assets pledged as security

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
ASSETS				
First mortgage				
Loans and advances to customers	372,256	492,279	-	-
Floating charge				
Cash assets	13,184	15,811	-	-
Receivables	2,543	2,296	-	-
Total assets pledged as security	387,983	510,386	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 19: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Future trailing commissions payable (i)	14,588	13,238	6,825	6,325
	14,588	13,238	6,825	6,325

Terms and conditions relating to the above financial instruments:

(i) The fair value of future trailing commission payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing commissions payable to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trailing commission payable is measured at amortised cost. Assumptions used in the assessment of the fair value are disclosed under note 2 (dd).

Refer to note 24 for fair value disclosure.

Note 20: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Lease incentives	176	258	176	258

Terms and conditions relating to the lease incentive

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 21: PROVISIONS

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Long service leave	409	406	409	406
Restructuring[1]	-	234	-	234
	409	640	409	640

	Restructuring Provision $'000
CONSOLIDATED	
At 1 July 2010	234
Utilised during the year	(234)
At 30 June 2011	-
PARENT	
At 1 July 2010	234
Utilised during the year	(234)
At 30 June 2011	-

[1] Restructuring Provision includes provisions for corporate entity restructuring and employee termination benefits. The restructuring was completed during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 22: DERIVATIVE FINANCIAL LIABILITY

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Derivative financial liability classified as held for trading (i)	206	427	-	-

(i) 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.

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

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

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

The table below sets out the effective exposure values of the derivatives underlying assets, which provides an indication of the Group's exposure to derivatives. The fair value of ($206,000) (2010: ($427,000)) gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives as that is dependent upon the applicable market interest rate at the time of settlement.

Notional Principal	**Consolidated**		**Parent**	
Amount	**2011**	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Less than 1 year	4,602	4,716	-	-
1 – 2 years	5,694	3,350	-	-
2 – 3 years	457	5,710	-	-
3 – 4 years	355	282	-	-
4 - 5 years	98	356	-	-
Total	**11,206**	**14,414**	-	-

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 $221,000 (2010: income of $634,000).

Refer to note 24 for fair value disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 23: ISSUED CAPITAL AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Ordinary shares issued and fully paid	64,481	98,283	64,481	98,283
	64,481	98,283	64,481	98,283

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
Movement in ordinary shares on issue				
At 30 June 2010	100,962	98,283	100,962	98,283
Issued during the year	2,826	1,868	2,826	1,868
Return of capital (i)	-	(35,670)	-	(35,670)
At 30 June 2011	103,788	64,481	103,788	64,481

(i) During the year the Company made a return of capital of 35 cents per share.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Share options

There were no options over ordinary shares granted during the financial year (2010: Nil). At the end of the year there were 125,000 unissued ordinary shares in respect of which options were outstanding (2010: 1,177,500 options). For more information refer to Note 16.

Dividend Reinvestment Plan

1,773,476 ordinary shares were issued on dividends reinvested as part of the Company's Dividend Reinvestment Plan.

Capital Management Plan

The Group's capital comprises share capital, reserves less accumulated losses amounting to $38,467,000 at 30 June 2011 (2010: $69,223,000). The primary objectives of the Group's capital management are to ensure that the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest costs of capital available to the Group.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities.

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 2011 and the year ended 30 June 2010.

During the year, the Company returned 35 cents per share to shareholders via a reduction in capital. The capital return, which was paid on 21 September 2010 and equated to a total payment of $35,670,000, is in line with the objectives of the Groups capital management plan.

Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Balance 1 July	(29,876)	(33,063)	(35,919)	(44,286)
Net profit for the year	9,162	12,253	8,053	17,433
Dividends	(6,116)	(9,066)	(6,116)	(9,066)
Balance 30 June	(26,830)	(29,876)	(33,982)	(35,919)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Employee Option Reserve

Movements in the employee option reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Balance 1 July	816	816	816	816
Charge for the period	-	-	-	-
Balance 30 June	816	816	816	816

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

Note 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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Credit risk exposures

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

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

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

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

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
ASSETS				
Cash assets	20,960	57,592	7,650	41,340
Receivables	5,501	5,296	16,537	19,028
Loans and advances to customers *	370,579	489,738	-	-
Other financial assets	37,212	34,393	26,044	23,450
Total	434,252	587,019	50,231	83,818

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

Credit exposure by credit rating

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

Loans and advances are for residential borrowers, who are not rated. All loans are individually mortgage insured by "AA- / A1" equivalent rated insurers.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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. However, given no new loans are being originated via this business segment, the unused facility is not required.

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

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

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

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

Going forward, the group is reliant on the renewal/negotiation of the existing warehouse facility or the issuance of new residential mortgage backed securities in order to fund the existing mortgage loans in the RMT SPV. The Group's warehouse facility has been extended for a further 12 months to 30 June 2012 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility. Developments across the global economy in recent months have again created volatility and a degree of uncertainty within credit markets. It should be noted that the warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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

CONSOLIDATED	Balance $'000	Maturity analysis 0 – 6 months $'000	6 – 12 months $'000	1 – 3 years $'000	3 – 5 years $'000	> 5 years $'000	Total $'000
30 June 2011							
Financial Liabilities							
Trade payables	6,437	6,437	-	-	-	-	6,437
Interest bearing liabilities							
- RMT Warehouse facility	309,373	54,436	271,282	-	-	-	325,718
- Bonds	70,381	16,347	12,883	29,452	11,413	9,072	79,167
- Loans from funders	3,254	449	424	1,544	1,358	-	3,775
Trailing commissions payable	14,588	3,405	3,128	7,352	3,306	2,684	19,875
Derivative financial liability	206	8	10	194	4	-	216
Total	404,239	81,082	287,727	38,542	16,081	11,756	435,188

CONSOLIDATED	Balance $'000	Maturity analysis 0 – 6 months $'000	6 – 12 months $'000	1 – 3 years $'000	3 – 5 years $'000	> 5 years $'000	Total $'000
30 June 2010							
Financial Liabilities							
Trade payables	7,152	7,152	-	-	-	-	7,152
Interest bearing liabilities							
- RMT Warehouse facility	390,753	73,644	337,361	-	-	-	411,005
- Bonds	111,591	25,111	19,780	45,225	17,638	19,854	127,608
- Loans from funders	3,818	548	506	1,794	1,535	-	4,383
Trailing commissions payable	13,238	3,199	2,606	6,300	2,644	1,877	16,626
Derivative financial liability	427	64	61	345	2	-	472
Total	526,979	109,718	360,314	53,664	21,819	21,731	567,246

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Parent	Balance $'000	Maturity analysis 0 – 6 months $'000	6 – 12 months $'000	1 – 3 years $'000	3 – 5 years $'000	> 5 years $'000	Total $'000
30 June 2011							
Financial Liabilities							
Trade and other payables	14,980	14,980	-	-	-	-	14,980
Interest bearing liabilities							
- Loans from funders	3,249	448	423	1,541	1,358	-	3,770
Trailing commissions payable	6,825	1,754	1,411	3,285	1,268	785	8,503
Total	25,054	17,182	1,834	4,826	2,626	785	27,253

Parent	Balance $'000	Maturity analysis 0 – 6 months $'000	6 – 12 months $'000	1 – 3 years $'000	3 – 5 years $'000	> 5 years $'000	Total $'000
30 June 2010							
Financial Liabilities							
Trade and other payables	17,280	17,280	-	-	-	-	17,280
Interest bearing liabilities							
- Loans from funders	3,811	545	504	1,790	1,535	-	4,374
Trailing commissions payable	6,325	1,669	1,330	3,036	1,128	660	7,823
Total	27,416	19,494	1,834	4,826	2,663	660	29,477

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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.

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Financial Assets				
Cash and cash equivalents	20,960	57,592	7,650	41,340
Loans and advances to customers	359,373	475,324	-	-
Derivative financial instrument (notional value)	11,206	14,414	-	-
	391,539	547,330	7,650	41,340
Financial liabilities				
Interest-bearing liabilities - floating	(383,008)	(506,162)	(3,249)	(3,811)
	(383,008)	(506,162)	(3,249)	(3,811)
Net Exposures	8,531	41,168	4,401	37,529

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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	2011 Net Profit / (Loss) after tax $'000	2011 Total Equity $'000	2010 Net Profit / (Loss) after tax $'000	2010 Total Equity $'000
Consolidated				
+ 100bps	60	60	288	288
- 100bps	(60)	(60)	(288)	(288)
Parent				
+ 100bps	31	31	263	263
- 100bps	(31)	(31)	(263)	(263)

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

Prepayment risk

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

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

Movement in variable	2011 Net Profit / (Loss) after tax $'000	2011 Total Equity $'000	2010 Net Profit / (Loss) after tax $'000	2010 Total Equity $'000
Consolidated				
+ 10%	(1,242)	(1,242)	(1,184)	(1,184)
-10%	1,438	1,438	1,388	1,388
Parent				
+ 10%	(1,075)	(1,075)	(959)	(959)
-10%	1,249	1,249	1,132	1,132

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Fair values

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

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

Recognised Financial Instruments

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

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

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

	Carrying amount		Fair value	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Consolidated				
Financial assets				
Cash	20,960	57,592	20,960	57,592
Receivables	5,501	5,296	5,501	5,296
Loans and advances to customers	370,579	489,738	370,579	489,738
Other financial assets	37,212	34,393	37,212	34,393
Financial liabilities				
Payables	6,437	7,152	6,437	7,152
Interest bearing liabilities	383,008	506,162	383,008	506,162
Other financial liabilities	14,794	13,665	14,794	13,665

	Carrying amount		Fair value	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Parent				
Financial assets				
Cash	7,650	41,340	7,650	41,340
Receivables	16,537	19,028	16,537	19,028
Other financial assets	26,044	23,450	26,044	23,450
Financial liabilities				
Payables	14,980	17,280	14,980	17,280
Interest bearing liabilities	3,249	3,811	3,249	3,811
Other financial liabilities	6,825	6,325	6,825	6,325

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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 lease term of 2.3 years. Assets, which are the subject of operating leases, include office space and items of office machinery.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Within one year	1,741	1,772	1,741	1,772
After one year but not more than five years	2,700	4,038	2,700	4,038
More than five years	-	-	-	-
	4,441	5,810	4,441	5,810

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its surplus office space requirements. Operating leases have an average lease term of 2.2 years.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Within one year	783	753	783	753
After one year but not more than five years	950	938	950	938
More than five years	-	-	-	-
	1,733	1,691	1,733	1,691

Superannuation Commitments

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

Contingent liabilities and capital commitments

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (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	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
Parent entity					
Homeloans Limited					
Controlled entities of Homeloans Limited:					
NSW Home Loans Pty Ltd	Australia	100%	100%	-	-
VIC Home Loans Pty Ltd	Australia	100%	100%	-	-
QLD Home Loans Pty Ltd	Australia	100%	100%	-	-
SA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
WA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
IF & I Securities Pty Ltd	Australia	100%	100%	-	-
FAI First Mortgage Pty Ltd	Australia	100%	100%	-	-
Access Home Loans Consolidated incorporating:				6,869	6,869
- Access Network Management Pty Ltd	Australia	100%	100%	-	-
- Access Home Loans Pty Ltd	Australia	100%	100%	-	-
- HLL Pty Ltd	Australia	100%	100%	-	-
Independent Mortgage Corporation Pty Ltd	Australia	100%	100%	-	-
Match Funds Management Limited (i)	Australia	0%	100%	-	56
Residential Mortgage Trust Warehouse Trust No.1(a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.5 (a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.6 (a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 (a)	Australia	100%	100%	-	-
Auspak Financial Services Pty Ltd	Australia	100%	100%	1,466	1,466
				8,335	8,391

a – Capital unit is held by a third party.

(i) During the period the Group sold 100% of its equity interest in Match Funds Management Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (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).

Related party		Sales to related parties $	Purchases from related parties $	Amounts owed by related parties $	Amounts owed to related parties $
PARENT					
Subsidiaries:					
FAI First Mortgage Pty Ltd	2011	3,227,874	-	3,718,371	-
	2010	3,161,559	-	4,496,012	-
Access Network Management Pty Ltd	2011	1,519,455	-	1,490,305	8,209,726
	2010	2,138,857	-	2,321,293	8,209,726
Match Funds Management Limited	2011	-	-	-	-
	2010	-	-	-	12,072
Independent Mortgage Corporation Pty Ltd	2011	-	-	10,004,376	-
	2010	-	-	10,677,025	-
Residential Mortgage Trusts	2011	-	-	-	3,705,795
	2010	-	-	-	3,705,795
Auspak Financial Services Pty Limited	2011	-	-	-	729,132
	2010	-	-	-	538,768
Other related parties:					
National Mortgage Brokers Pty Ltd (formerly Mosaic Financial Services Pty Ltd)	2011	-	-	297,105	-
	2010	-	-	234,419	-
Advantedge Financial Services (formerly Challenger Mortgage Management)	2011	6,225,613	-	-	-
	2010	3,287,863	-	-	-

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

Other related parties

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 27: EVENTS AFTER BALANCE DATE

On 29th August 2011, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2011 of 3.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2011 financial statements. The final dividend is payable on 30th September 2011.

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	
	2011 $	2010 $	2011 $	2010 $
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	242,256	251,423	206,000	216,300
• a compliance audit or review of the financial report of the entity and any other entity in the consolidated group	7,725	12,360	7,725	7,725
	249,981	263,783	213,725	224,025

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

Note 29: DIRECTORS AND EXECUTIVE DISCLOSURES

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2011	2010	2011	2010
	$	$	$	$
Short-Term	1,566,109	1,796,719	1,566,109	1,796,719
Post Employment	132,735	113,967	132,735	113,967
Other Long-Term	78,500	68,000	78,500	68,000
Termination Benefits	-	-	-	-
Share-based Payment	-	680	-	680
	1,777,344	1,979,366	1,777,344	1,979,366

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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

Shares held in Homeloans Limited (number)

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

Shares held in Homeloans Limited (number)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

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

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

	Balance at beginning of period $'000	New Loans $'000	Interest Charged $'000	Interest not Charged $'000	Balance at end of period $'000	Number in group #
2011	3,182	-	113	-	1,167	2
2010	3,217	-	192	-	3,182	2

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

	Balance at beginning of period $'000	New Loans $'000	Interest Charged $'000	Interest not Charged $'000	Balance at end of period $'000	Highest Balance in Period $'000
Directors						
T.A. Holmes	2,367	-	98	-	1,167	2,381
R. P Salmon	815	-	15	-	-	820
Total	3,182	-	113	-	1,167	3,201

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

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

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

(i) giving a true and fair view of the Company and Group's financial position as at 30 June 2011 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 2011

On behalf of the Board

Timothy A. Holmes
Executive Chairman

Perth, 22 September 2011

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b) the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration.

ERNST & YOUNG

Opinion

In our opinion:

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

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2011 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 2011. 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 2011, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
22 September 2011

TD:MJ:HLL:076

INVESTOR INFORMATION

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

The information has been prepared as at 15 September 2011

(a) Substantial shareholder details:

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

Substantial Holder	Number of ordinary shares in which interest held
Challenger Group Holdings Ltd	23,335,257
National Australia Bank Ltd	17,919,981
Redbrook Nominees Pty Ltd Acres Holdings Pty Ltd	14,781,858
Timothy Alastair Holmes Bond Street Custodians Ltd (TA Holmes A/c) Tico Pty Ltd (TA Holmes Family A/c) Bond Street Custodian Ltd (TA Holmes Superfund A/c) Bond Street Custodian Ltd (Carol Mary Holmes A/c) Joanna Mary Holmes Tiffany Eliza Farrar Holmes Lucy Caroline Holmes	12,635,082
Robert Peter Cockburn Salmon Peterlyn Pty Ltd (Salmon Family Fund A/c) Peterly Pty Ltd (Salmon Superfund A/c)	12,269,494

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

There are 699 holders of Ordinary Shares
There are 4 holders of Employee Options

(c) Voting Rights

The Company has only ordinary shares on issue. All of the Ordinary Shares are fully paid. The holders of the fully paid Ordinary Shares are entitled to attend and vote at all general meetings of the Company and are entitled to be represented at the meeting.

On a show of hands each member present is entitled to one vote and on a poll each member present is entitled to one vote for every ordinary share held.

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

Size of holdings	Ordinary Shares Number of holders
1 – 1,000	82
1,001 – 5,000	302
5,001 – 10,000	114
10,001 – 100,000	166
100,001 and over	35
TOTAL	**699**

There are 36 shareholders with less than a marketable parcel of shares.
A marketable parcel of shares is defined by the ASX as a parcel of shares worth more than $ 500.00

(e) Top 20 holders of Ordinary Shares:

Name	Ordinary Number of Shares held	Shares % holding
Challenger Group Holdings Ltd	23,335,257	22.48
National Australia Bank Ltd	17,919,981	17.27
Redbrook Nominees Pty Ltd	13,311,044	12.83
Peterlyn Pty Ltd	11,898,588	11.46
Tico Pty Ltd	7,988,546	7.70
Hartley Phillips Securities Pty Ltd	4,354,029	4.20
Bond Street Custodians Ltd (V73544A/c)	4,087,736	3.94
AJA Investments Pty Ltd	3,446,312	3.32
Gemtrick Pty Ltd	2,175,678	2.10
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,541,301	1.48
Acres Holdings Pty Ltd	1,470,814	1.42
Ferber Holdings Pty Ltd	1,425,904	1.37
Carpenter Nominees Pty Ltd	678,718	0.65
Daisson Holdings Pty Ltd (Lonie Super A/c)	458,442	0.44
JAMAC Holdings Pty Ltd	429,955	0.41
Bond Street Custodians Ltd(V12870 A/c)	428,636	0.41
Mr Jarrod Smith	406,000	0.39
Mr Robert Salmon	370,906	0.36
Beneficial Home Loans Pty Ltd	269,647	0.26
Ms Kym Carter	226,048	0.22
TOTAL	**96,223,542**	**92.71%**

(f) Share Trading

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

(g) Share Buy-Back

The Company announced on 21 September 2011 that it is resuming its on-market share buy-back of the ordinary shares of the Company.