Homeloans
Providing Solutions

Homeloans Annual Report 2014

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 8 to 26.

Directors

Timothy Holmes (Chairman)
Robert Salmon (Non-Executive Director)
Robert Scott (Non-Executive Director)
Michael Starkey (Non-Executive Director)

Company Secretary

Jennifer Murray

Registered Office

Level 5,
50 St Georges Terrace
Perth WA 6000
Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
ABN: 55 095 034 003

Corporate Office

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

National Office

Level 5,
50 St Georges Terrace
Perth WA 6000
Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
Web site: www.homeloans.com.au
Customer enquiries: 13 38 39

Postal Address

PO Box 7216
Cloisters Square
Perth WA 6850

Share Registry

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

Bankers

Westpac Banking Corporation
Westpac Place
275 Kent Street
Sydney NSW 2000

Auditors

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

Homeloans Annual Report 2014

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Chairman's Report

On behalf of your Board, I am pleased to present the 2014 Annual Report for Homeloans Limited.

For the year ended 30 June 2014 (FY14), Homeloans delivered another solid financial result, recording a statutory net profit after tax of $6.2m, down from the previous financial year result of $7.7m. Given the prior year's result included the one off profit on the sale of an investment in National Mortgage Brokers (nMB) Pty Ltd, our underlying result of $6.3m was marginally down from $6.7m in the prior year. The result reflects the continued resilience of the company's earnings despite intense competition in the market, not least being discounting by the major banks.

Total funds under administration, including the securitisation portfolio, was down slightly to $7.6 billion as at 30 June 2014, from $7.7 billion as at 30 June 2013. These loan books continue to generate strong cash flows and underpin Homeloans' result.

The Board is pleased to declare a fully franked final dividend of 2.0 cents per share, bringing the total dividend to 5.0 cents per share for the year.

Australian mortgage market

The Australian home lending environment over the past financial year has improved, aided by relatively low levels of interest rates, despite consumer and business confidence levels remaining low and general economic conditions remaining flat.

Competition in the mortgage market has seen aggressive discounting, particularly around lower loan to valuation ranges and larger loan sizes. Commission rates by lenders and mortgage managers continues to be a focus, as lenders look to grow their share of total new mortgage lending flow. Despite these challenges, we have continued to perform well, growing our total settlements.

Expansion and growth

During FY14, the Group focused on expanding our Third Party distribution capabilities in the eastern states of Australia, as we view these markets as an opportunity for the business to expand. We continue to be supported by strong operating cash flows and are well placed to meet ongoing funding requirements, including future business development and acquisition opportunities.

As in 2013, Homeloans benefited from having access to a diversified funding base in 2014. We entered into a funding relationship with major shareholder Macquarie Bank and maintain strong relationships with our other wholesale funding partners. This has enabled Homeloans to improve and expand our product offering, including ensuring we are able to cover a full range of mortgage customer solutions. Supplementing the existing wholesale funding arrangements, Homeloans continues writing loans under the Residential Mortgage Trust ("RMT") program.

Our focus remains on providing a solid and competitive suite of products which, when delivered in combination with our existing strong third-party broker relationships, will further position the Company to increase market share.

Going Forward

Over the next 12 months, we expect general market conditions to continue in line with the levels experienced in the second half of FY14. The movement in the cash rate over the next 12 months and uncertainties around Federal budget measures is likely to have the biggest impact on the mortgage market. Irrespective of market conditions, Homeloans continues to invest in its sales capacity and has a number of strong platforms from which to grow our business and differentiate ourselves in the market.

We have a clear strategy to grow and diversify the business. This potentially includes further enhancing of product and service offerings across Homeloans' third-party broker partners and direct retail networks, as well as pursuing the expansion of our broker and direct retail distribution footprint.

We are also actively assessing growth opportunities in a range of complementary financial and property service areas, in order to diversify the revenue base and provide additional volume growth opportunities.

The objective of this growth and diversification strategy is to maintain Homeloans' profitability in the face of ongoing competition in the mortgage market.

Following the success of our inaugural sponsorship of the Perth Scorchers in the 2013 T20 Big Bash League, we have renewed our relationship with the team for 2015 and are looking to further improve our national brand presence through this sponsorship arrangement. Other highlights during the year involved the launch of a new product suite, funded by major shareholder Macquarie Bank Limited, as well as the relaunch to the third party broker market of our RMT funded products.

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

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

Timothy A. Holmes

Chairman

Chief Executive Officer’s Year in Review

Financial Results

Homeloans recorded a statutory net profit after tax (“NPAT”) of $6.2m for the year ended 30 June 2014 (“FY14”), down from the previous financial year (“FY13”) result of $7.7m which included a $1.0m after-tax profit on the sale of an investment in National Mortgage Brokers (“nMB”) Pty Ltd. Normalised NPAT after adjusting for internal restructuring costs and other non-cash items was $6.3m, which was down on the prior year of $6.7m.

Total lending volumes were up 13.8% compared with the 12 months to 30 June 2013. Pleasingly, total settlements for the six months to 30 June 2014 were 15.1% up on the second half of FY13. FY14 saw Homeloans continue to grow the Company’s ‘own branded’ loan book, with settlements up 13.2% for the year. The growth in branded loan settlements is a combination of favourable market conditions as well as a direct result of the Company’s investment in both broker network and sales distribution capacities. This investment will continue into FY15 as we further expand front line sales capacity in key states.

Despite stronger settlement volumes, revenue for FY14 was impacted by the ongoing run off of the Residential Mortgage Trust (“RMT”) loan portfolio, as well as continued market pressures on margins.

Operating expenses were down 7.2%, as a result of continued improvement in operating efficiencies within the business and savings in premises costs.

Net tangible asset backing per share was 26.94 cents, a decrease of 2.7% on the comparable prior period result of 27.69 cents.

Return on ordinary equity was 14.7% versus 17.9% for the previous year.

Dividend

The Board has declared a fully franked final dividend of 2.0 cents per share, taking the full year dividend to 5.0 cents per share.

Earnings per share

Basic earnings per share on a statutory basis stood at 5.84 cents.

Management and Personnel

As at 30 June 2014, Homeloans had 69 full-time equivalent staff and 73 retail representatives nationally; this includes mobile lenders, satellite offices and branded brokers. Mr Ray Hair joined the executive team on 10 June 2014 as General Manager National Sales, with responsibility for driving Homeloans’ broker and retail distribution strategies. Ray joins our experienced executive and senior management team with a broad background in financial services.

Distribution

Homeloans has three distinct distribution channels to reach Australian borrowers:

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

The combination of an improvement in the residential lending market, improved product offerings and investment in sales force capacity has seen total settlements grow 13.8% in the year. See table A for year on year settlements.

The value of the portfolio of loans written through all channels is shown in table B.

Table A Annual Settlements ($m)

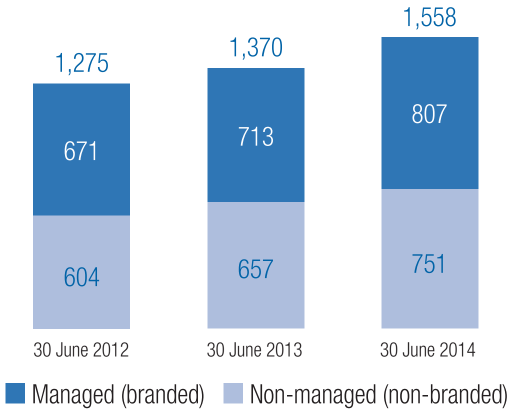
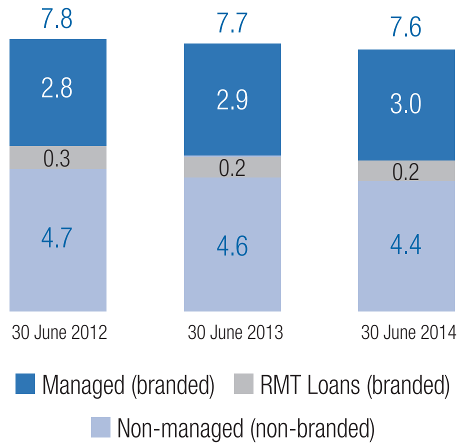


Table B FUM/FUA ($bn)



Distribution – Third Party

Third party distribution remains a primary source of settlement volumes. Total branded settlement volumes through the third party channel were up 12% on the previous financial year.

One of our key areas of focus during the year was to continue to expand and deepen the relationships with the third party market. This has been achieved through investment in front line staff and improvements in the product range and pricing, whilst maintaining a strong focus on ensuring our service levels and assessment processes met the needs of our broker partners.

Distribution – Direct Retail Sales

During the year, the lending volumes through our direct channels increased 17%, reflecting the improvements in product range and pricing, as well as a full year impact of settlements through the iMortgage direct online channel.

Broker Distribution

Homeloans also owns and operates a number of branded and non-branded broking businesses. These independent brokers can sell lending products from a variety of financial institutions and lenders, including Homeloans. Homeloans receives a share of the upfront and trail commission on these loan settlements.

Marketing

Enhancing brand recognition is an integral part of Homeloans' strategy to increase distribution and, as such, we have renewed our relationship with the Perth Scorchers following a successful sponsorship during the T20 Big Bash League competition in early 2014. The sponsorship of the Scorchers increased brand recognition with our third party broker partners, as well as with retail consumers, and resulted in a material lift in traffic to the homeloans.com.au website.

Homeloans will continue to leverage this sponsorship to further build relationships with our third party brokers and assist to build our retail market presence. Enhancing both these relationships form a vital part of Homeloans' strategy to diversify and grow the business into the future.

We pride ourselves on levels of customer service provided to our client base. As testament to this, Homeloans was recognised as a finalist in the Australian Lending Awards in the category of 'Best Non-Bank', and the Mortgage & Finance Association of Australia Excellence Awards in the category of 'Mortgage Manager of the Year.'

Funding and operations

Homeloans continues to improve back office processes and services, and during the year we commenced a major project to replace and upgrade IT systems that form the Company's core mortgage management platform. This project will improve functionality for our broker partners, as well as efficiency across a variety of Company functions. This project is planned for implementation in the second half of FY15.

Homeloans maintained its strong relationships with our broad base of wholesale funding partners, which include Bendigo and Adelaide Bank, Advantedge (division of National Australia Bank), ING, Pepper, Resimac and Macquarie Bank. In addition, we expanded our product suite in the second half of FY14, with the launch of the Homeloans Optima product, a fully featured loan funded by major shareholder Macquarie Bank Limited. This product complements our product range, and we will continue to work together with our funding partners in the year ahead to maintain and strengthen our positioning in the mortgage market.

Homeloans' proprietary funding line, RMT, recommenced funding new originations during the prior year, with the RMT product range relaunched to the third party broker market in FY14. We continued to roll over our warehouse funding line with Westpac, which is our warehouse facility provider, and maintain regular discussions regarding the future utilisation of the facility and the products offered through this funding line. Although the RMT loan portfolio again declined year-on-year, the Group has recommenced writing new originations through RMT with the aim of growing both wholesale funded and RMT funded originations in FY15.

We continue to be supported by strong operating cashflows emanating from the underlying annuity stream derived from the loan book under management, as well as the value of new settlements. We also remain free of any recourse corporate debt facilities, and the ongoing cash reserves will be more than sufficient to meet Homeloans' funding requirements including future business development and investment.

Homeloans remains well placed to capitalise on emerging opportunities in the market, and we will continue to pursue the expansion of both broker and direct retail distribution footprint, actively assessing inorganic growth opportunities across a range of complementary financial and property service providers.

In closing, I would like to thank our employees and stakeholders for their efforts, and commitment over the past 12 months. I also thank our shareholders for their continued support. I look forward to solid FY15 market conditions as we pursue growth and diversification of the Homeloans business.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2014.

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 (Chairman)

Tim resigned as Managing Director on 31 December 2012. He had performed the duties of acting Managing Director since 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 46 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and a former 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. He 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 44 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia. Rob has not held any other Directorships of listed companies over the past three years.

Robert Norman Scott (Non-Executive Director)

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

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

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

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

- Manas Resources Limited (Resigned 31 March 2014)

Rob was formerly a director of the following listed companies:

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

Michael Starkey (Non-Executive Director)

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

COMPANY SECRETARY

Jennifer Murray

Jennifer Murray was appointed company secretary to Homeloans Limited on 9 November 2000. She is a Chartered Secretary and has over 31 years experience in providing corporate secretarial services for both public and proprietary companies. She was previously the Senior Manager, Corporate Secretarial Services for Perth based Gooding Partners Chartered Accountants. Jennifer joined Homeloans Limited as an employee on 11 March 2013.

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

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

	Number of Ordinary Shares	Number of Options Over Ordinary Shares
T A Holmes	12,847,024	-
R P Salmon	10,977,449	-
R N Scott	2,156,116	-
M Starkey	-	-

DIVIDENDS

	Cents	$'000
Final dividend as declared on 25 August 2014:		
Final dividend for 2014		
- on ordinary shares (fully franked)	2.0	2,102
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (fully franked)	3.0	3,204
Final dividend for 2013		
- on ordinary shares (fully franked)	3.0	3,194

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 Limited, Macquarie Securitisation Limited, Origin Mortgage Management Services, ING Bank (Australia) Limited, Pepper Homeloans Pty Ltd, Resimac Limited, Residential Mortgage Trust and other institutions.

OPERATING AND FINANCIAL REVIEW

Group Overview

Homeloans is a non-bank lender, mortgage broker and mortgage management service provider with a nationwide presence that was established 29 years ago. 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 $6,205,000 down from the previous financial year result of $7,736,000. The prior year result includes a $1.0m after-tax profit on the sale of Homeloans' investment in National Mortgage Brokers (nMB) Pty Ltd (see Note 4 (d) on page 60). On a normalised basis, net profit after tax was $6,278,000 down on the comparable prior year result of $6,688,000 (See Table 1 on page 11).

The Group has grown lending volumes and delivered a sound full year financial result which has been impacted by margin pressures in what remains as a competitive market for mortgage customers. The Group's segment results reflect the two key elements of profitability for the company. The Origination and Management segment incorporates both Third Party and Direct sales channels and reflects the revenue and expense associated with new loan originations and the ongoing trail which is accounted for on a Net Present Value ('NPV') basis (see Note 2 (i) on page 48). The Securitisation of Mortgages segment represents the net interest margin earned on loans funded through the RMT. On an operating segment basis (see Table 2 on page 12) the Origination and Management business declined 14.9% to $6.1m, however on a normalised basis, adjusting for the nMB sale, the result for the Origination and Management segment was up 5.9%. The securititised loan portfolio was effectively in run off prior to the second half of 2013.

Total lending volumes were up by 13.8% on the previous financial year. Branded loan settlements accounted for the majority of this, increasing 13.2% as a result of the Group's investment in distribution sales force capacity and product launches through the year. Loan balances under administration by the Group were down slightly to $7.6 billion from $7.7 billion as at 30 June 2013. The Group has continued to grow its branded loan book, achieving growth of 2.3% to $3.0 billion as at 30 June 2014, reflecting ongoing focus on providing a competitive offering and on retention activities.

Net interest income generated from the Group's securitised loan portfolio was down from $9,693,000 to $8,404,000 as the balance of this portfolio continues to reduce over time ($203,405,000 as at 30 June 2014). The Group re-commenced writing new loans in the RMT during the second half of the 2013 financial year and on a net basis this portfolio declined 7.4% in the period compared to a 24% decline in the twelve months to 30 June 2013.

Net fee and commission income was $14,882,000, down 2.1% from $15,208,000. Net loan origination income was up $703,000 or 31% in line with volume increases whilst net management income was down $1,029,000 or 8% reflecting margin pressures.

Total operating expenses of $15,229,000 were down 7.2% from the corresponding period of $16,413,000. After allowing for one off costs of $308,000 associated with restructuring (in relation to an internal review to improve efficiencies within the business), underlying expenses were down 8.0% on the previous financial year.

Other operating income was down $840,000 as a result of a reduction in sub lease income on relocation of the company's Head Office premises in August 2013.

Impairment gains relating to the Group's RMT loan portfolio were $257,000 and reflected net recoveries made in the period on impaired loans within the RMT portfolio.

Table 1: UNAUDITED NON-IFRS INFORMATION

	Consolidated [1]	
Normalised Profit after Tax	**2014 $'000**	**2013 $'000**
Statutory Profit after tax	6,205	7,736
Add:		
Restructuring costs	308	-
Provision for fixtures and fittings removal (pre-tax)	-	200
Less:		
RMT cashflow re-estimation benefit (pre - tax)	(204)	(292)
Profit on disposal of associate (pre-tax)	-	(1,407)
Tax effect of the above	(31)	451
Normalised profit after tax	**6,278**	**6,688**

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

The Group's warehouse facility has been extended for a further 12 months to 30 June 2015 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility. The Group re-commenced writing new loans into the warehouse facility in the 2013 financial year and continued to write a proportion of new business volumes through the warehouse facility. It should be noted that the warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income. The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

The Group expects general market conditions to remain positive although this is tempered by competition amongst lenders for market share. Refinancing activity is expected to remain a dominant theme in settlement flows, consistent with the experience in the second half of the financial year. The Board is confident the environment, combined with the investment in distribution capacity and the Homeloans brand, will continue to present opportunities for the Group to continue to grow settlement volumes in the year ahead which is vital to growing profitability. The Group will also continue to pursue the expansion of the broker and direct retail distribution footprint, actively assessing inorganic growth opportunities across a range of complementary financial and property service providers.

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

Table 2: UNAUDITED NON-IFRS INFORMATION

SEGMENT RESULTS

Summarised operating results are as follows:

Operating segments	2014 $'000	2013 $'000	% change
Origination and Management			
Revenues (1)	39,905	41,190	(3.1%)
Results (1)	6,106	7,175	(14.9%)
Securitisation of Mortgages			
Revenues	13,355	18,579	(28.1%)
Results	2,788	3,963	(29.7%)
Group Revenue	**53,260**	**59,769**	**(10.9%)**
Group Profit before income tax expense	**8,894**	**11,138**	**(20.2%)**

1) The results for the year ended 30 June 2013 include the gain on sale of the investment in nMB Pty Limited of $1,407,000. Excluding this gain the Result (unaudited) for the Origination and Management Segment for 2013 was $5,768,000. Segment information has been presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

Shareholder Returns

Basic earnings per share on a statutory basis was 5.84 cents.

	2014	2013	2012	2011 (4)	2010
Basic earnings per share (cents)	5.84	7.26	7.67	8.96	12.21
Return on assets (%) (1)	2.1%	2.3%	2.0%	1.8%	1.8%
Return on equity (%) (2)	14.7%	17.9%	20.2%	20.9%	18.6%
Dividend payout ratio (%) (3)	85.5%	82.7%	78.9%	67.5%	57.7%

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

1) Return on assets is calculated by taking the net profit after tax for the year and dividing by the average total assets.

As a result of the requirement under AASB 10 – Consolidated Financial Statements, the parent company exercises control over the special purpose entity, Residential Mortgage Trust (RMT), and therefore significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.

2) Return on equity is calculated by taking the net profit after tax for the year and dividing by the average total equity.

3) Dividend Payout Ratio is calculated by dividing dividends declared from net profit after tax for the year by the net profit after tax.

4) A return of capital of 35 cents per share was made during the year ended 30 June 2011.

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 2014 of $3,377,000 (2013: Decrease of $2,909,000).

Net operating cash inflow of $6,020,000 (2013: $3,464,000) includes cash available to the investors in the special purpose vehicles (SPV) of RMT, which is maintained in the trust cash collections accounts. The balance of cash in these cash collections accounts is not available to the Group. The movement in these cash balances during the financial year was positive $1,750,000 (2013: negative movement of $6,326,000). Therefore, if the RMT SPV's had not been consolidated, total Group net operating cash inflow would have been $4,270,000 (2013: $9,790,000).

The Group maintains sufficient capital reserves to meet ongoing funding requirements. The Residential Mortgage Trust has a warehouse facility of $200,000,000 as at 30 June 2014 (2013: $200,000,000) drawn to $176,252,000 at 30 June 2014 (2013: $182,971,000).

Asset and capital structure

Profile of Debts	2014 $'000	2013 $'000
The profile of the Group's debt finance is as follows:		
Bank loans – secured	176,252	182,971
Due to bondholders	31,701	40,592
Loans from funders	1,593	2,783
	209,546	226,346

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

Capital Expenditure

There has been a decrease in cash due to the purchase of equipment during the year ended 30 June 2014 of $659,000 compared to $251,000 in the year ended 30 June 2013.

Risk Management

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

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

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

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

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

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

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

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 25th August 2014, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2014 of 2.0 cents per share, fully franked. The dividend has not been provided for in the 30 June 2014 financial statements. The final dividend is payable on 3rd October 2014.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued shares

As at 30 June 2014, there were no unissued ordinary shares under options (2013: nil).

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

SHARE RIGHTS

Unissued shares

As at 30 June 2014, there were 854,216 unissued ordinary shares under rights (2013: 101,130).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

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

INDEMNIFICATION OF AUDITORS

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

REMUNERATION REPORT (Audited)

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

For the purposes of this report, the term 'executive' encompasses the Chief Executive Officer, the executive management team and other senior managers of the Group.

Details of Key Management Personnel

Directors

T.A.Holmes	Chairman
R.P.Salmon	Director (Non-Executive)
R.N.Scott	Director (Non-Executive)
M. Starkey	Director (Non-Executive)

Key Management Personnel

S.McWilliam	Chief Executive Officer
I.Parkes	Chief Financial Officer
G.Mitchell	General Manager – Sales (resigned 6th June 2014)
R.Hair	General Manager – Sales (appointed 10th June 2014)

Remuneration philosophy

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

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

Compensation policy

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

To assist in achieving these objectives, the Board links the nature and amount of 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 23 of this report.

REMUNERATION REPORT (CONTINUED)

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Chief Executive Officer and the executives.

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits on. The remuneration of non-executive directors for the period ended 30 June 2014 and 30 June 2013 is detailed in Table 1 on page 21.

Executive remuneration

Objective

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

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

REMUNERATION REPORT (CONTINUED)

Employee Rights Plan

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

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

Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee may, from time to time, engage an external consultant to provide independent advice detailing market levels of remuneration for comparable executive roles. No remuneration consultant was used in the financial year ended 30 June 2014.

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each executive by the Nomination and Remuneration Committee. Table 1 on page 21 details the variable component of the Key Management Personnel, of the Company and the Group.

Fixed remuneration

Objective

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

Structure

The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the Key Management Personnel of the Company and the Group are detailed in Table 1 on page 21.

Variable remuneration — Short term incentive (STI)

Objective

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

Structure

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

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

REMUNERATION REPORT (CONTINUED)

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

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the Nomination and Remuneration Committee and there are no pre-determined maximum possible values of award under the STI scheme. In assessing the value of an STI award to be granted the Board will give consideration to the contribution of the action being rewarded to the success of the Group. Payments are made in the following reporting period and are usually delivered as a cash bonus plus a deferred share component.

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

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

STI Bonus for 2014 financial year

Cash component

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

Deferred component

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2014 financial year in August 2014. The deferred STI was issued in the form of share rights and will vest on 1 September 2015 subject to continuing employment. The fair value of the rights granted was $96,383 which includes $41,894 for the Key Management Personnel. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 1 on page 21.

STI Bonus for 2013 financial year

Cash component

The Nomination and Remuneration Committee determined the STI payments for the 2013 financial year in August 2013. The STI cash bonus for the 2013 financial year was $285,188, which included $125,813 for the Key Management Personnel, and was paid in the 2014 financial year.

Deferred component

The Nomination and Remuneration Committee determined the deferred STI bonus for the 2013 financial year in August 2013. The deferred STI was issued in the form of share rights and vested on 1 September 2014. The fair value of the rights granted was $63,976, which includes $28,107 for the Key Management Personnel. The value of the rights issued are amortised over the vesting period it relates to as shown in Table 1 on page 21.

Variable remuneration — Long term incentive (LTI)

Objective

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

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

REMUNERATION REPORT (CONTINUED)

Structure

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

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

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

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

LTI Rights for the 2014 financial year – Retention plan

During the financial year, the Board awarded a grant of 190,696 share rights to the Key Management Personnel of the Group. No payment was required on grant or is required on exercise of these share rights. The share rights were awarded to retain key executives and have a fair value of $142,848. The vesting conditions are subject to continued employment with no performance hurdles. The share rights will vest on 30 June 2015 and 31 December 2015. If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 1 on page 21.

LTI Rights for the 2014 financial year - Performance

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

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

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

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

- Tranche 2 is tested at 31 December 2015. If the performance condition is not satisified, any share rights that remain unvested will be tested again for the final time at 31 December 2016.

- Tranche 3 is tested at 31 December 2016. If the performance condition is not satisfied, it will lapse.

REMUNERATION REPORT (CONTINUED)

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

Table 1:

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

Table 2:

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

If the rights vest, one share for each vested right will be issued. The value of the rights issued will be amortised over the vesting period it relates to as shown in Table 1 on page 21.

LTI Deferred Bonus for the 2013 financial year

In August 2012, the Board awarded a cash bonus for 2013 in the absence of shareholder approval of a new share award plan. This bonus was subject to continuing employment until September 2013 and amounted to $153,896 which included $109,032 for the Key Management Personnel. The value of this award was accounted for over the vesting period it related to.

No options were granted during the year.

Employment contracts

Chief Executive Officer

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

During the financial year, in his role as Chief Executive Officer, Mr. McWilliam was paid $322,808.

Under the conditions of employment the CEO may be terminated by either party, by giving 6 months notice. The Company may make a payment in lieu of requiring the service of the notice period. Upon termination of employment, the CEO is entitled to their statutory entitlements to accrued annual and long service leave. Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria. Upon termination all vested options remain in place.

Other executives

Under their conditions of employment the employment of the executives may be terminated by either party, by giving 6 weeks notice. The Company may make a payment in lieu of requiring the service of the notice period.

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

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

REMUNERATION REPORT (CONTINUED)

Remuneration of Key Management Personnel of the Company and the Group

Table 1: Remuneration for the year ended 30 June 2014 and 30 June 2013

		Short term			Post employment	Termination benefits	Long Term	Share–Based payments	Total	% performance related	% rights related
		Salary & Fees	Cash Bonus	Non-monetary benefits	Superannuation		Incentive Plans (6)				
Non-executive directors											
T.A.Holmes	2014	75,000	-	9,595	-	-	-	-	84,595	0.00%	0.00%
	2013	142,305	-	10,754	9,692	-	-	-	162,751	0.00%	0.00%
R.P.Salmon	2014	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
	2013	50,000	-	-	-	-	-	-	50,000	0.00%	0.00%
R.N.Scott	2014	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
	2013	57,500	-	-	-	-	-	-	57,500	0.00%	0.00%
M. Starkey (1)	2014	-	-	-	-	-	-	-	-	0.00%	0.00%
	2013	-	-	-	-	-	-	-	-	0.00%	0.00%
Other Key Management Personnel											
S.McWilliam (2)	2014	322,808	93,000	-	43,332	-	-	65,240	524,380	30.18%	12.44%
	2013	291,681	65,813	-	30,841	-	79,418	10,125	477,878	32.51%	2.12%
I.Parkes	2014	224,703	41,250	-	24,817	-	-	12,604	303,374	17.75%	4.15%
	2013	209,994	37,500	-	18,900	-	8,545	5,769	280,708	18.46%	2.06%
G.Mitchell (3)	2014	207,877	-	1,195	20,580	193,842	-	1,178	424,672	0.28%	0.28%
	2013	222,000	22,500	10,754	20,925	-	5,494	3,462	285,135	11.03%	1.21%
R.Hair (4)	2014	7,692	-	253	712	-	-	968	9,625	10.06%	10.06%
	2013	-	-	-	-	-	-	-	-	0.00%	0.00%
L. McDonald (5)	2014	-	-	-	-	-	-	-	-	0.00%	0.00%
	2013	137,057	-	5,435	28,015	183,783	-	-	354,290	0.00%	0.00%
Totals	2014	945,580	134,250	11,043	89,441	193,842	-	79,990	1,454,146		
	2013	1,110,537	125,813	26,943	108,373	183,783	93,457	19,356	1,668,262		

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

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

3) G. Mitchell resigned on 6 June 2014.

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

5) L. McDonald resigned as Head of Credit/Underwriting on 31 December 2012.

6) Amounts shown represent a deferred cash bonus awarded in August 2012 which was paid in September 2013.

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 2014 (2013: no options granted).

No options vested or were exercised during the year ended 30 June 2014 or 30 June 2013.

For details on the valuation of the options, including models and assumptions used, please refer to note 15.

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

REMUNERATION REPORT (CONTINUED)

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

The table below discloses the number of share rights granted to executives as remuneration for the year ended 30 June 2014 and 30 June 2013.

The Employee rights plan was approved at the Homeloans Limited Annual General Meeting on 22 November 2012. Share rights under the 2013 STI deferred bonus scheme were issued on 27 August 2013 following confirmation of the 2013 financial year performance.

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

Short Term Incentive – STI deferred bonus scheme

30 June 2014	Year	No. of rights awarded during the year	Grant date	Fair value per right $	Vesting date	Expiry date
Key management personnel						
S.McWilliam	2014	43,972	01/07/2013	0.66	01/09/2015	01/09/2015
	2013	23,338	22/11/2012	0.63	01/09/2014	01/09/2014
I.Parkes	2014	19,504	01/07/2013	0.66	01/09/2015	01/09/2015
	2013	13,298	22/11/2012	0.63	01/09/2014	01/09/2014
G.Mitchell	2014	-	-	-	-	-
	2013	7,979	22/11/2012	0.63	01/09/2014	01/09/2014
R.Hair	2014	-	-	-	-	-
	2013	-	-	-		-

Long Term Incentive – LTI retention scheme

30 June 2014	Year	No. of rights awarded during the year	Grant date (1)	Fair value per right (1) $	Vesting date	Expiry date
Key management personnel						
S.McWilliam	2014	149,578	1/01/2014	0.77	30/06/2015	30/06/2015
	2013	-	-	-	-	-
R.Hair	2014	41,118	11/06/2014	0.67	31/12/2015	31/12/2015
	2013	-	-	-		-

Long Term Incentive – LTI performance related scheme

30 June 2014	Year	No. of rights awarded during the year	Grant date (1)	Fair value per right (1) $	Vesting date	Expiry date
Key management personnel						
S.McWilliam	2014	24,927	1/01/2014	0.41	31/12/2014	31/12/2016
		24,927	1/01/2014	0.39	31/12/2015	31/12/2016
		24,935	1/01/2014	0.37	31/12/2016	31/12/2016
		24,927	1/01/2014	0.45	31/12/2014	31/12/2016
		24,927	1/01/2014	0.45	31/12/2015	31/12/2016
		24,935	1/01/2014	0.45	31/12/2016	31/12/2016
	2013	-	-	-	-	-
I.Parkes	2014	11,308	1/01/2014	0.41	31/12/2014	31/12/2016
		11,308	1/01/2014	0.39	31/12/2015	31/12/2016
		11,310	1/01/2014	0.37	31/12/2016	31/12/2016
		11,308	1/01/2014	0.45	31/12/2014	31/12/2016
		11,308	1/01/2014	0.45	31/12/2015	31/12/2016
		11,311	1/01/2014	0.45	31/12/2016	31/12/2016
	2013	-	-	-		-
G.Mitchell (1)	2014	-	-	-	-	-
	2013	-	-	-		-
R.Hair	2014	-	-	-		-
	2013	-	-	-		-

1) 60,314 rights issued to G.Mitchell in FY2014 were forfeited during the 2014 financial year upon his resignation from the Group.

REMUNERATION REPORT (CONTINUED)

Company performance and shareholder returns

Basic earnings per share on a statutory basis was 5.84 cents.

	2014	2013	2012	2011 (2)	2010
Basic earnings (loss) per share (cents)	5.84	7.26	7.67	8.96	12.21
Return on assets (%) (1)	2.1%	2.3%	2.0%	1.8%	1.8%
Return on equity (%)	14.7%	17.9%	20.2%	20.9%	18.6%
Dividend payout ratio (%)	85.5%	82.7%	78.9%	67.5%	57.7%
Share price (cents)	75.0	94.5	58.0	62.0	70.0
Dividends (cents)	5.0	6.0	6.0	6.0	7.0

1) As a result of the requirement under AASB 10 – Consolidated Financial Statements, the parent company exercises control over the special purpose entity, Residential Mortgage Trust (RMT), and therefore significant assets have been added to the consolidated Statement of Financial Position without any appreciable increase in net profit.

2) A return of capital of 35 cents per share was made during the year ended 30 June 2011.

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

No options held by KMP's during the 2014 financial year.

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

	Balance at beginning of period 1 July 13	Granted as remuneration	Shares issued	Forfeited	Balance at end of period 30 June 14	Vested and exercisable	Vested and not Exercisable
30 June 2014							
Executives							
S.McWilliam	23,338	343,128	-	-	366,466	-	-
I.Parkes	13,298	87,357	-	-	100,655	-	-
G. Mitchell (1)	7,979	60,314	-	(60,314)	7,979	-	-
R. Hair (2)	-	41,118	-	-	41,118	-	-
Total	44,615	531,917	-	(60,314)	516,218	-	-

1) G. Mitchell resigned on 6 June 2014 and forfeited his LTI performance share rights

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

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

Rights forfeited during the reporting period:

60,314 rights were forfeited during the reporting period. The fair value of the forfeited share rights were $25,332.

REMUNERATION REPORT (CONTINUED)

Shareholdings of Key Management Personnel of the Company and the Group

Shares held in Homeloans Limited (number)

	Balance 01 July 2013 Ord.	Granted as remuneration Ord.	On exercise of Options Ord.	Net Change Other Ord. [(3)]	Balance 30 June 2014 Ord.
30 June 2014					
Directors					
T.A.Holmes	12,847,024	-	-	-	12,847,024
R.P.Salmon	12,477,449	-	-	(1,500,000)	10,977,449
R.N.Scott	2,156,116	-	-	-	2,156,116
Executives					
S.McWilliam	50,000	-	-	-	50,000
I. Parkes	-	-	-	-	-
G. Mitchell [(1)]	552	-	-	42	594
R. Hair [(2)]	-	-	-	10,000	10,000
Total	27,531,141	-	-	(1,489,958)	26,041,183

1) G. Mitchell resigned on 6 June 2014

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

3) All equity transactions with Key Management Personnel have been entered into under terms and conditions no more favourable than those the Company would have engaged in dealing at arms length.

Loans to Key Management Personnel of the Company and the Group

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

	Balance at beginning of period	New Loans	Interest Charged	Interest not Charged	Balance at end of period	Number in group
	$'000	$'000	$'000	$'000	$'000	#
2014	1,134	-	69	-	1,112	1

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

	Balance at beginning of period	New Loans	Interest Charged	Interest not Charged	Balance at end of period	Highest Balance in Period
	$'000	$'000	$'000	$'000	$'000	$'000
Directors						
T.A. Holmes	1,134	-	69	-	1,112	1,138

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.

End of Remuneration Report

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit and Risk Management Committee	Nomination and Remuneration Committee
Number of meetings held:	11	3	1
Number of meetings attended:			
T. A. Holmes	11	-	-
R. P. Salmon	11	3	1
R. N. Scott	11	3	1
M. Starkey	11	2	1

Committee Membership

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

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

Audit and Risk Management Committee

R.N. Scott (Chairman)

R.P. Salmon

M. Starkey

Nomination and Remuneration Committee

R.P. Salmon (Chairman)

R.N. Scott

M. Starkey

ROUNDING

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

Non-Audit Services

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

Signed in accordance with a resolution of the directors

Timothy A. Holmes

Chairman

Perth, 25 September 2014

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
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 for the financial year ended 30 June 2014, 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

Peter McIver
Partner
25 September 2014

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 Chief Executive Officer;
- 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 Chief Executive Officer 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 Chief Executive Officer 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 Chief Executive Officer 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	Chairman	13 yrs 11 months
R.P Salmon	Non – Executive Director	13 yrs 11 months
R.N Scott	Non – Executive Director	13 yrs 11 months
M. Starkey	Non – Executive Director	1 yr 5 months

Scott McWilliam became Chief Executive Officer on 1 January 2013. Up until his date of appointment, the Chairman exercised the role of Managing Director and had done so since the previous Managing Director resigned on 30 September 2008.

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 Chief Executive Officer, must retire from the office and stand for re-election at each Annual General Meeting. Further, each director, excluding the Chief Executive Officer, must stand for re-election every 3 years.

During the year, Mr T.A Holmes and Mr M.Starkey retired from the Board and were re-elected at the 2013 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 Chief Executive Officer, via the Nomination and Remuneration Committee. The Nomination and Remuneration Committee and the Chief Executive Officer 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 and Risk Management 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 Directors' Report.

Principle 3 – Promote ethical and responsible decision-making

Code of Conduct

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

Diversity Policy

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

The key elements of the diversity policy are as follows:

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

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

Gender representation	30 June 2014		30 June 2013	
	Female (%)	Male (%)	Female (%)	Male (%)
Board representation	0%	100%	0%	100%
Key management personnel and other executive representation	29%	71%	29%	71%
Group representation	53%	47%	52%	48%

Gender diversity objectives	Progress Update as at 30 June 2014
1. Target the proportion of female employees within a range of 40-60% of total Group employees	The proportion of female employees stands at 53%, within the targeted range
2. Target the percentage of women in management positions at a level of at least 25%	The percentage of women in management positions stands at 43%, above the target level
3. Target total female representation at executive level of two by June 2015	Female representation at executive level already stands at two
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 2014

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

Principle 4 – Safeguard integrity in financial reporting

Integrity of Homeloans financial reporting

The Board has the responsibility to ensure truthful and factual presentation of the Company's financial position. The Board has established an Audit and Risk Management 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 and Risk Management 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 and Risk Management Committee to comprise of independent directors.

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

The primary functions of the Audit and Risk Management 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 and Risk Management 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 2012 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 and Risk Management Committee, which has in its charter, responsibility for overseeing the effective operation of the Company's risk management framework.

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

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

The 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 and Risk Management Committee. Senior management provide reporting to the Audit and Risk Management 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 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 2014 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 (1)
2.2	The chair should be an independent director.	Not comply (1)
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	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
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 (1) Not comply (1) Comply (1) Comply (1)

	ASX Principle	Compliance
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
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 (1) Not comply (1) 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

1) 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.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

		CONSOLIDATED		HOMELOANS LIMITED	
	Note	2014 $'000	2013 $'000	2014 $'000	2013 $'000
ASSETS					
Cash and cash equivalents	8	13,798	17,175	6,802	11,957
Receivables	9	5,253	4,301	12,307	13,646
Loans and advances to customers	10	203,405	219,353	-	-
Other financial assets	11	52,016	49,757	37,538	35,433
Plant and equipment	12	843	627	843	627
Investment in controlled entities	13	-	-	8,335	8,335
Goodwill	14	13,220	13,220	655	655
TOTAL ASSETS		288,535	304,433	66,480	70,653
LIABILITIES					
Payables	16	5,917	5,768	15,902	16,756
Interest-bearing liabilities	17	209,546	226,346	1,592	2,781
Other financial liabilities	18	22,785	21,412	10,977	9,960
Derivative financial liability	21	39	66	-	-
Lease incentives	19	101	47	101	47
Deferred income tax liabilities	5	7,973	7,435	6,015	5,519
Provisions	20	637	601	637	601
TOTAL LIABILITIES		246,998	261,675	35,224	35,664
NET ASSETS		41,537	42,758	31,256	34,989
EQUITY					
Issued capital	22	39,029	66,131	39,029	66,131
Reserves	22	940	816	940	816
Retained earnings/(accumulated losses)	22	1,568	(24,189)	(8,713)	(31,958)
TOTAL EQUITY		41,537	42,758	31,256	34,989

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 2014

		CONSOLIDATED		HOMELOANS LIMITED	
	Note	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Interest income	4(a)	19,220	23,887	4,471	4,440
Interest expense	4(e)	(10,816)	(14,194)	(1,328)	(1,389)
Net interest income		8,404	9,693	3,143	3,051
Fees and commission income	4(b)	33,664	34,666	26,175	24,995
Fees and commission expense	4(f)	(18,782)	(19,458)	(12,189)	(10,993)
Other operating income	4(c)	376	1,216	3,287	6,616
Operating expenses	4(g)	(15,229)	(16,413)	(15,130)	(16,263)
Profit on sale of associate	4(d)	-	1,407	-	1,407
Impairment gain/(loss)	4(h)	257	(265)	-	-
Gain on remeasurement of loans and advances recognised at amortised cost	4(d)	204	292	-	-
Profit before income tax		8,894	11,138	5,286	8,813
Income tax expense	5	(2,689)	(3,402)	(1,593)	(1,880)
Net profit after tax for the year		6,205	7,736	3,693	6,933
Total comprehensive income for the year attributable to members of Homeloans Limited		6,205	7,736	3,693	6,933
Earnings per share for profit attributable to the ordinary equity holders of the parent					
Basic earnings per share (cents per share)	6	5.84	7.26		
Diluted earnings per share (cents per share)	6	5.82	7.25		

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 2014

	Issued Capital $'000	Retained Earnings/ (Accumulated Losses) $'000	Reserves $'000	Total $'000
CONSOLIDATED				
At 1 July 2012	**66,114**	**(25,008)**	**816**	**41,922**
Profit after tax for the year	-	7,736	-	7,736
Total comprehensive income	-	7,736	-	7,736
Share buyback	(208)	-	-	(208)
Dividend reinvestment plan	225	-	-	225
Equity dividends	-	(6,917)	-	(6,917)
At 1 July 2013	**66,131**	**(24,189)**	**816**	**42,758**
Profit after tax for the year	-	6,205	-	6,205
Total comprehensive income	-	6,205	-	6,205
Share buyback	(1,449)	-	-	(1,449)
Dividend reinvestment plan	297	-	-	297
Capital reduction (1)	(25,950)	25,950	-	-
Share-based payments	-	-	124	124
Equity dividends	-	(6,398)	-	(6,398)
At 30 June 2014	**39,029**	**1,568**	**940**	**41,537**

	Issued Capital $'000	Retained Earnings/ (Accumulated Losses) $'000	Reserves $'000	Total $'000
PARENT				
At 1 July 2012	**66,114**	**(31,974)**	**816**	**34,956**
Profit after tax for the year	-	6,933	-	6,933
Total comprehensive income	-	6,933	-	6,933
Share buyback	(208)	-	-	(208)
Dividend reinvestment plan	225	-	-	225
Equity dividends	-	(6,917)	-	(6,917)
At 1 July 2013	**66,131**	**(31,958)**	**816**	**34,989**
Profit after tax for the year	-	3,693	-	3,693
Total comprehensive income	-	3,693	-	3,693
Share buyback	(1,449)	-	-	(1,449)
Dividend reinvestment plan	297	-	-	297
Capital reduction (1)	(25,950)	25,950	-	-
Share-based payments	-	-	124	124
Equity dividends	-	(6,398)	-	(6,398)
At 30 June 2014	**39,029**	**(8,713)**	**940**	**31,256**

1) Homeloans Limited reduced the share capital of the Company in accordance with Section 258F of the Corporations Act, effective 1 April 2014. The amount of the capital reduction was $25,950,000 representing goodwill written off in 2002 and 2003. See note 22.

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 2014

	Note	CONSOLIDATED		HOMELOANS LIMITED	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash flows from operating activities					
Interest received		19,725	24,717	4,751	4,720
Interest paid		(10,699)	(14,910)	(1,336)	(1,394)
Loan fees and other income		30,261	32,737	26,977	31,706
Salaries and other expenses		(31,125)	(32,179)	(23,354)	(23,258)
Repayments of warehouse facility (1)		(6,719)	(61,069)	-	-
Repayments to bondholders (1)		(8,892)	(13,587)	-	-
Net loans repaid from borrowers(1)		16,265	69,736	-	-
Income taxes paid		(2,796)	(1,981)	(2,796)	(1,981)
Net cash flows from operating activities	8	6,020	3,464	4,242	9,793
Cash flows from investing activities					
Purchase of plant and equipment		(659)	(251)	(659)	(251)
Sale of National Mortgage Brokers Pty Ltd		-	1,619	-	1,619
Net cash flows from/(used in) investing activities		(659)	1,368	(659)	1,368
Cash flows from financing activities					
Share buyback program		(1,449)	(208)	(1,449)	(208)
Proceeds from borrowings		149	812	149	812
Repayment of borrowings		(1,332)	(1,636)	(1,332)	(1,636)
Payment of dividends		(6,106)	(6,709)	(6,106)	(6,709)
Net cash flows used in financing activities		(8,738)	(7,741)	(8,738)	(7,741)
Net (decrease)/increase in cash and cash equivalents		(3,377)	(2,909)	(5,155)	3,420
Add: Opening cash and cash equivalents		17,175	20,084	11,957	8,537
Closing cash and cash equivalents	8	13,798	17,175	6,802	11,957

1) The cash flows of the Group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the Group's operating cash flows. These cash flows are not available for the use of shareholders. The RMT SPV's generated positive operating cashflows of $1,750,000 (2013: negative $6,326,000) during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Note 1: CORPORATE INFORMATION

The financial report of Homeloans Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of directors on 25 September 2014.

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

The nature of the operations and principal activities of the Group are described in the directors' report.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

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

(b) Statement of compliance

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

New and amended accounting standards and interpretations

Except as disclosed below, the accounting policies adopted are consistent with those of the previous financial year. From 1 July 2013, the Group has adopted all new and amended Standards and Interpretations effective from 1 July 2013 including:

Standards	Summary
AASB 10 Consolidated Financial Statements AASB 12 Disclosure of Interests in Other Entities	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 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 of voting rights may give control. Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10. 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 judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests. Application of AASB 10 has not resulted in changes to those entities controlled by the Group and AASB 12 has resulted in increased disclosure in the 30 June 2014 annual financial report.

(b) Statement of compliance (Continued)

Standards	Summary
AASB 13 Fair Value Measurement	AASB 13 establishes a single source of guidance 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 when fair value is required or permitted. 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. Consequential amendments were also made to other standards via AASB 2011-8. Application of AASB 13 has resulted in increased disclosure in the 30 June 2014 annual financial report.
AASB 119 Employee Benefits (Revised 2011)	The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10. There is no material impact to the Group.
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124)	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions and resulted in less disclosures in the 30 June 2014 annual financial report.

Early adopted new and amended accounting standards and intepretations

The following accounting standard was early adopted by the Group at 30 June 2014:

Standards	Summary
AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendment is effective for the financial year beginning on or after 1 January 2014 with early adoption permited. The Group has early adopted the amendment in the 30 June 2014 annual report, which resulted in reduced impairment disclosures required under the AASB 136.

New and amended Standards and Interpretations, issued but not yet effective

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

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	*Financial Instruments*	On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss	1 January 2018	1 July 2018

Reference	Title	Summary	Application date of standard	Application date for Group
		AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.		
AASB 2012-3	Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	1 July 2014
IFRS 15*	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 Revenue and related Interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services*) The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Early application of this standard is permitted.	1 January 2017	1 July 2017

* These IFRS amendments have not yet been adopted by the AASB. In order to claim compliance with IFRS, these amendments should be noted in the financial statements.

Management is in the process of determining the impact of the above new and amended accounting standards and interpretations.

(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 over which the Group has control. 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.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Consolidated Entity controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

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.

Special Purpose Vehicles

The Group manages and services trusts that hold residential mortgage-backed assets and securitised financial liabilities. As the Group retains the right to the residual income of these trusts, it is deemed to control them and, as a result, they are consolidated.

(d) Business combinations

Business combinations (pre 1 July 2009)

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

Business combinations (post 1 July 2009)

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

Acquisition-related costs are expensed as incurred.

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

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

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

(e) 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.

(f) 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.

(g) Intangibles

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

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

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

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

(h) Share-based payment transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Revenue recognition

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

Origination and loan management business - Managed Loans

- Application fee revenue received in respect of loans is recognised when the service has been provided.
- Origination commissions are recognised as revenue once the origination of the loan has been completed.
- The group also receives trailing commissions from lenders on loans originated by Homeloans on behalf of those lenders. The trailing commissions are received over the life of the loans based on the loan book balance outstanding. The group also makes trailing commission payments to brokers and commissioned staff based on the loan book balance outstanding.

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

Origination of Non-managed Loans

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

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

Securitisation of mortgages

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

(j) Borrowing costs

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

(k) Cash and cash equivalents

Cash on hand and in banks and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) Receivables

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

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

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

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

(m) De-recognition of financial instruments

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

The Group utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being controlled entities under AASB 10 – Consolidated Financial Statements. These transactions do not meet the criteria under AASB 139 - Financial Instruments: Recognition and Measurement with respect to the de-recognition of financial instruments. Accordingly, the value of the securitised loans has been recorded in the Statement of Financial Position with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

(n) Recoverable amount of non-financial assets

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

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

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

(o) Non-current assets held for sale

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

(p) Recoverable amount of financial assets

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

Financial assets carried at amortised cost

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

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

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

(q) Loans and advances

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

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

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

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

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

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

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

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

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

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

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

All RMT loans are covered by Lenders Mortgage Insurance.

(r) Plant and equipment

Cost and valuation

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

Depreciation

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

Plant and equipment – over 3 to 15 years.

Impairment

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

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

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

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

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

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

(s) Trade and other payables

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

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

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

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

(t) Interest-bearing loans and borrowings

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

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

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

(u) Provisions

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

The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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

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

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

(v) Taxes

Income tax

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

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

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

Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries, and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Tax consolidation legislation

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

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

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

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

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

(w) Goods and services tax (GST)

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

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

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

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

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

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

(x) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets held for trading, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not held for trading, directly attributable transactions costs.

The Group determines the classification of its financial assets on initial recognition.

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

Financial assets held for trading

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

Held-to-maturity investments

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

Available-for-sale investments

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

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

(y) Derivative financial instruments

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

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

(z) Employee benefits

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

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

Employee benefits expenses arise in respect of the following categories:

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

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

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

(aa) Earnings per share

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

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

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

(bb) Issued Capital

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

(cc) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

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

Recovery of deferred tax assets

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

Consolidation of SPVs

The Group manages and services trusts that hold residential mortgage-backed assets and securitised financial liabilities and retains the right to the residual income of these trusts. The Group has concluded that the RMT SPVs meet the criteria of being controlled entities under AASB 10 – Consolidated financial statements because the Group has power to appoint the SPV manager to direct relevant activities of the SPVs as stipulated in the Trust Deed. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the Statement of Financial Position using the effective interest method with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

Recognition of future trailing commission receivable

The recognition of the future trailing commission receivable on the Statement of Financial Position is an area of judgment due to the different recognition criteria existing within the accounting standards. This position will continue to be monitored in future accounting periods having regard to developments in the relevant accounting standards.In this respect, the Directors believe the accounting treatment adopted by the Group in recognising a financial asset is in accordance with the accounting standards and is consistent with the treatment adopted in the prior year and by similar industry participants. The unrealised profit before tax resulting from the movement of the future trailing commission assets for the financial year ended 30 June 2014 was $2,259,000 (2013: $2,680,000.)

Significant accounting estimates and assumptions

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

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 14.

Impairment losses on loans and advances

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

Future trailing commissions receivable and future trailing commissions payable

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

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

	Year ended 30 June 2014	Year ended 30 June 2013
Weighted average loan life	4 years and 3 months	4 years and 1 month
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 $2,854,000.

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
- Trailing commission rate

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

(dd) Comparatives

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

(ee) Fair value

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

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

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

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

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

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

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

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

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

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

Note 3: OPERATING SEGMENTS

Identification of reportable segments

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

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

Types of products and services

Origination and management

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

Securitisation of mortgages

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

Accounting policies and inter-segment transactions

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

Corporate charges

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

The following item is not allocated to operating segments as it is not considered part of the core operations of any segment:

- Income tax

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

Year ended 30 June 2013	Origination and Management $'000	Securitisation of Mortgages $'000	Total $'000
Revenue			
Interest Income	5,932	17,955	23,887
Fee and commission income	34,042	624	34,666
Other operating income	1,216	-	1,216
Total segment revenue from external	41,190	18,579	59,769
Inter-segment revenue	2,314	-	2,314
Total segment revenue	43,504	18,579	62,083
Inter-segment elimination			(2,314)
Total consolidated revenue			59,769
Result			
Segment results before impairment and finance costs	7,382	3,936	11,318
Impairment loss	-	(265)	(265)
Gain on remeasurement of loans and advances recognised at amortised cost	-	292	292
Finance costs	(207)	-	(207)
Segment results before income tax	7,175	3,963	11,138
Income tax expense			(3,402)
Net profit for the year			7,736
Assets and liabilities			
Segment assets	75,133	229,300	304,433
Total assets			304,433
Segment liabilities	28,320	224,527	252,847
Unallocated liabilities (tax balances)			8,828
Total liabilities			261,675
Other segment information			
Capital expenditure	251	-	251
Depreciation	350	-	350
Interest expense	2,469	11,725	14,194

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).

Note 4: REVENUES AND EXPENSES

		CONSOLIDATED		HOMELOANS LIMITED	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
	REVENUE				
(a)	**Interest income**				
	Interest received – other person/corporations	**19,220**	**23,887**	**4,471**	**4,440**
(b)	**Fees and commission income**				
	Mortgage origination income	12,784	11,135	9,332	8,231
	Loan management fees	20,880	23,531	16,843	16,764
		33,664	**34,666**	**26,175**	**24,995**
(c)	**Other**				
	Rental income	83	830	83	830
	Management Fees – Wholly owned controlled entities	-	-	2,911	2,700
	Dividend received from subsidiary	-	-	-	2,700
	Other	293	386	293	386
		376	**1,216**	**3,287**	**6,616**
	Total Revenue	**53,260**	**59,769**	**33,933**	**36,051**
(d)	**Other income**				
	Profit on sale of associate	-	1,407	-	1,407
	Gain on remeasurement of loans and advances recognised at amortised cost (1)	204	292	-	-
	EXPENSES				
(e)	**Interest expense**				
	Interest on other loans	132	207	132	207
	Interest recognised on trailer commission payable	2,564	2,263	1,196	1,182
	Interest payable to bondholders	1,096	1,582	-	-
	Interest payable to warehouse facility provider	7,024	10,142	-	-
		10,816	**14,194**	**1,328**	**1,389**
(f)	**Fees and commission expense**				
	Mortgage origination expense	9,814	8,868	6,528	6,043
	Loan management expense	8,968	10,590	5,661	4,950
		18,782	**19,458**	**12,189**	**10,993**

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
(g) Operating expenses				
(i) *General administrative expenses*				
Depreciation	443	350	443	350
Occupancy costs	1,403	2,201	1,403	2,201
Marketing, consultancy and IT	1,756	1,728	1,756	1,725
Other expenses	2,171	2,428	2,078	2,310
	5,773	**6,707**	**5,680**	**6,586**
(ii) *Employee benefits*				
Wages & salaries	7,533	7,334	7,533	7,334
Workers' compensation costs	14	33	14	33
Annual leave provision	(63)	43	(63)	43
Long service leave provision	36	94	36	94
Employee incentive payments	450	489	450	489
Payroll tax	362	455	362	455
Share based payments	124	-	124	-
Other employee costs	951	1,187	951	1,187
	9,407	**9,635**	**9,407**	**9,635**
(iii) *Other operating expenses*				
Bank fees	**49**	**71**	**43**	**42**
Total Operating expenses	**15,229**	**16,413**	**15,130**	**16,263**
(h) Impairment gain/(loss) – loans and advances (2)	257	(265)	-	-
(i) Gain on derivative financial liability classified as held for trading (3)	27	135	-	-

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

The gain of $204,000 (2013: $292,000) in loans and advances recognised at amortised cost reflects a re-estimation of cash flows to be generated from the loans within the RMT SPV's using the original effective interest rate

2) Impairment – loans and advances

An allowance for impairment is maintained against the mortgage loan receivables within the RMT Special Purpose Vehicles. In the current financial year, an impairment gain of $257,000 has been recognised which represents amounts reversed during the year. In the 2013 financial year, an impairment loss of $265,000 was recognised and was measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries. Refer to Note 10 for further disclosure on allowance for impairment loss.

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

Note 5: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
The major components of income tax expense are:				
Statement of Comprehensive Income				
Current income tax				
Current income tax charge	2,174	2,880	1,120	1,425
Adjustments in respect of current income tax of previous years	(23)	23	(23)	25
Deferred income tax				
Relating to origination and reversal of temporary differences	538	499	496	430
Income tax expense reported in the Statement of Comprehensive Income	2,689	3,402	1,593	1,880
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	8,894	11,138	5,286	8,813
At the Group's statutory income tax rate of 30% (2013: 30%)	2,668	3,341	1,586	2,644
Entertainment expenses	7	10	7	10
Share rights expensed	24	-	24	-
Difference in prior year tax (paid during the year)	(23)	23	(23)	24
Other	13	28	(1)	12
Fully franked dividend received from subsidiary	-	-	-	(810)
Income tax expense reported in the Statement of Comprehensive Income	2,689	3,402	1,593	1,880

	Statement of Financial Position		Statement of Comprehensive Income	
	2014 $'000	2013 $'000	2014 $'000	2013 $'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	(78)	(86)	(8)	(34)
Accrued income	(93)	(104)	(11)	39
Trailing commissions receivable	(15,605)	(14,927)	678	801
Deferred income tax liabilities	(15,776)	(15,117)		
Deferred tax assets				
Losses available for offset against future taxable income	-	34	34	229
Capital loss benefit recognised	-	-	-	82
Accrued expenses	209	247	38	(57)
Effective interest adjustments on loans and advances	22	24	2	8
Allowance for impairment losses – loans and advances to customers	399	501	102	113
Derivative instrument	12	20	8	40
Lease incentives	30	14	(16)	15
Provisions	325	333	8	(41)
Capital items	62	86	24	(41)
Trailing commissions payable	6,744	6,423	(321)	(655)
Deferred income tax assets	7,803	7,682		
Net deferred income tax liabilities	(7,973)	(7,435)		
Deferred tax expense			538	499

Reconciliation of net deferred tax liabilities:	**2014 $'000**	**2013 $'000**
Opening balance as of 1 July	**(7,435)**	**(6,936)**
Tax expense during the year recognised in profit or loss	(538)	(499)
Closing balance as at 30 June	**(7,973)**	**(7,435)**

	Statement of Financial Position		Statement of Comprehensive Income	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
PARENT				
Deferred tax liabilities				
NPV future trailing commissions receivable	(11,261)	(10,630)	631	157
Accrued income	(93)	(104)	(11)	39
Deferred income tax liabilities	(11,354)	(10,734)		
Deferred tax assets				
Losses available for offset against future profits	-	34	34	229
Capital loss benefit recognised	-	-	-	82
NPV future trailing commissions payable	3,200	2,989	(211)	49
Accrued expenses	209	247	38	(57)
Lease incentives	30	14	(16)	15
Provisions	1,838	1,845	7	(43)
Capital items	62	86	24	(41)
Deferred income tax assets	5,339	5,215		
Net deferred income tax liabilities	(6,015)	(5,519)		
Deferred tax expense			496	430

Reconciliation of net deferred tax liabilities:	2014 $'000	2013 $'000
Opening balance as of 1 July	**(5,519)**	**(5,089)**
Tax expense during the year recognised in profit or loss	(496)	(430)
Closing balance as at 30 June	**(6,015)**	**(5,519)**

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	
	2014 $'000	2013 $'000
Total increase to tax payable to Homeloans Limited from subsidiaries	1,051	1,454
Total increase to intercompany assets of Homeloans Limited	1,051	1,454

Note 6: EARNINGS PER SHARE

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

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

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

	CONSOLIDATED	
	Year ended 30 June 2014 $'000	Year ended 30 June 2013 $'000
Net profit attributable to ordinary equity holders of the parent	6,205	7,736
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	6,205	7,736

	No. of shares 30 June 2014	No. of shares 30 June 2013
Weighted average number of ordinary shares for basic earnings per share	106,294,189	106,578,937
Effect of dilution: Share rights	437,748	101,130
Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS	106,731,937	106,680,067

There were no options outstanding at 30 June 2014.

There were 854,216 rights outstanding at 30 June 2014 (2013: 101,130). 416,468 TSR related performance rights have not been included in the diluted earnings per share calculation as they are contingent on future events, which have not been met at 30 June 2014.

During the period between the reporting date and the date of completion of the financial statements, 101,130 shares have been issued as a result of options or share rights being exercised. There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Note 7: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Declared and paid during the year:				
Franked dividends:				
Fully franked final dividend on ordinary shares for 2013 – 3.0 cents per share (2012: 3.5 cents)	3,194	3,721	3,194	3,721
Fully franked interim dividend on ordinary shares for 2014 – 3.0 cents per share (2013: 3.0 cents)	3,204	3,196	3,204	3,196
	6,398	6,917	6,398	6,917
Proposed and not recognised				
Dividends on ordinary shares:				
Final fully franked dividend for 2014 – 2.0 cents (2013: 3.0 cents)	2,102	3,194	2,102	3,194

Franking credit balance

	HOMELOANS LIMITED	
	2014 $'000	2013 $'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% (2013: 30%)	1,698	1,649
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	749	1,395
	2,447	3,044
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	(901)	(1,380)
	1,546	1,664

The tax rate at which dividends have been franked is 30% (2013: 30%)

Note 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'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	6,910	12,037	6,802	11,957
RMT Cash Collections Account (1)	3,895	3,635	-	-
Restricted Cash (2)	2,993	1,503	-	-
	13,798	17,175	6,802	11,957

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

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

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Reconciliation of net profit after tax to net cash flows from operating activities				
Net profit after tax	6,205	7,736	3,693	6,933
Adjustments for:				
Impairment (gain)/loss	(257)	265	-	-
Depreciation	443	350	443	350
Share rights expense	124	-	124	-
Dividends received from associate	-	170	-	170
Gain on disposal of associate	-	(1,407)	-	(1,407)
Changes in assets and liabilities:				
Decrease/(increase) in receivables	(3,202)	(2,170)	(755)	1,176
Decrease in derivative financial liabilities/assets	(27)	(135)	-	-
Movement in impairment allowance account	(341)	(906)	-	-
Decrease in due to borrowers	16,546	70,088	-	-
Decrease in due to bondholders	(8,892)	(13,587)	-	-
Decrease in due to warehouse facility	(6,719)	(61,069)	-	-
Increase in deferred tax liabilities	538	499	495	430
(Decrease)/increase in current tax liability	(646)	907	(646)	907
Increase in trade and other payables	2,212	2,629	852	1,140
Increase in provisions	36	94	36	94
Net cash from operating activities	6,020	3,464	4,242	9,793

Disclosure of financing facilities

Refer to note 17.

Disclosure of non-cash financing and investing activities
There were no non-cash financing activities.

Note 9: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current				
Fees receivables				
Non-related parties [(1)]	2,360	2,507	1,681	1,854
	2,360	2,507	1,681	1,854
Accrued interest [(3)]	464	546	-	-
Prepayments [(4)]	569	583	386	495
Last days collections receivable [(5)]	1,561	415	-	-
Other	299	250	288	168
	5,253	4,301	2,355	2,517
Non-Current				
Fees receivables				
Related parties [(2)]				
- wholly owned controlled entity	-	-	9,952	11,129
	-	-	9,952	11,129
Total	**5,253**	**4,301**	**12,307**	**13,646**

Terms and conditions relating to the above financial instruments

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

2) Details of the terms and conditions of related party receivables are set out in note 25. No impairment was recognised in the current or prior financial year. The balance is considered fully collectible.

3) Accrued interest is due within 30 days.

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

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

Receivables are neither past due nor impaired. The amount is considered fully collectible. Refer to note 23 for fair value.

Note 10: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross loans and advances to customers	204,735	221,024	-	-
Less: Allowance for impairment loss	(1,330)	(1,671)	-	-
	203,405	219,353	-	-

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	
	2014	**2013**	**2014**	**2013**
Current	**$'000**	**$'000**	**$'000**	**$'000**
Less than 1 year	58,704	65,424	-	-
Non-current				
1 – 2 years	41,861	46,059	-	-
2 – 3 years	29,853	32,425	-	-
3 – 4 years	21,293	22,827	-	-
4 – 5 years	15,188	16,071	-	-
> 5 years	37,836	38,218	-	-
Total	**204,735**	**221,024**	**-**	**-**

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	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Allowance for impairment loss - opening	1,671	2,047	-	-
(Decreased)/increased impairment charges	(257)	265	-	-
Amounts written off	(84)	(641)	-	-
Allowance for impairment loss - closing	1,330	1,671	-	-
Collective allowance	392	583	-	-
Specific allowance	938	1,088	-	-
	1,330	1,671	-	-

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

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

Loans past due but not impaired	Consolidated		Parent	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
1 - 3 months	734	2,188	-	-
3 - 6 months	341	572	-	-
> 6 months	1,445	-	-	-
Total	**2,520**	**2,760**	**-**	**-**

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	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Carrying amount of impaired loans	2,530	2,047	-	-
Less: Expected recoverable amount	(1,592)	(959)	-	-
Impairment loss	**938**	**1,088**	**-**	**-**

Refer to note 23 for fair value disclosure for loans and advances to customers.

Collateral repossessed

As at 30 June 2014 the Group had 1 repossessed residential property in possession being the security for RMT loans. The Group intends to sell this property with the proceeds to go towards clearing the outstanding balance of the underlying RMT loan.The loan balance of this property is $746,000 and the estimated value of the property is circa $500,000. An impairment allowance of $80,000 was raised for this loan as at 30 June 2014 and an insurance claim for the shortfall has been lodged with our Mortgage insurers.

Note 11: OTHER FINANCIAL ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Future trailing commissions receivable (1)				
- Current	17,588	18,991	13,234	14,574
- Non-current	34,428	30,766	24,304	20,859
	52,016	49,757	37,538	35,433

Terms and conditions relating to the above financial instruments:

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

Note 12: PLANT AND EQUIPMENT

	CONSOLIDATED	HOMELOANS LIMITED
	Plant and equipment $'000	Plant and equipment $'000
Year ended 30 June 2014		
At 1 July 2013, net of accumulated depreciation and impairment	627	627
Additions	659	659
Depreciation charge for the year	(443)	(443)
At 30 June 2014, net of accumulated depreciation and impairment	843	843
At 30 June 2014		
Cost	7,431	7,431
Accumulated depreciation and impairment	(6,588)	(6,588)
Net carrying amount	843	843
Year ended 30 June 2013		
At 1 July 2012, net of accumulated depreciation and impairment	726	726
Additions	251	251
Depreciation charge for the year	(350)	(350)
At 30 June 2013, net of accumulated depreciation and impairment	627	627
At 30 June 2013		
Cost	6,771	6,771
Accumulated depreciation and impairment	(6,144)	(6,144)
Net carrying amount	627	627

Note 13: INVESTMENT IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Investment at cost in controlled entities	-	-	21,331	21,331
Impairment allowance	-	-	(12,996)	(12,996)
	-	-	8,335	8,335

Note 14: GOODWILL

	CONSOLIDATED	HOMELOANS LIMITED
	$'000	$'000
Year ended 30 June 2013		
At 1 July 2013, net of impairment	13,220	655
At 30 June 2014, net of impairment	13,220	655
At 30 June 2014		
Cost (gross carrying amount)	29,597	655
Less: Impairment loss	(16,377)	-
Net carrying amount	13,220	655
Year ended 30 June 2013		
At 1 July 2012, net of impairment	13,220	655
At 30 June 2013, net of impairment	13,220	655
At 30 June 2013		
Cost (gross carrying amount)	29,597	655
Less: Impairment loss	(16,377)	-
Net carrying amount	13,220	655

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

- Origination and Management
- Securitisation of Mortgages

Origination and Management

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

The assumed growth rate in settled loans over the period covered by the forecast is an assumed average growth rate of 12% each year (2013:10%).The projected growth rate used reflects long term market averages as well as the business' projections of its own expected performance. Loan repayment rates range from 14% to 25% depending on types of loans and lenders (2013: 12% to 32%) and are based on actual experience. A terminal value of 8 times (2013: 8 times) was used for cash flows beyond 10 years reflecting industry averages.

The discount rate applied to cash flow projections is 12.0% (2013:12.5%) 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 in a prior period.

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

CONSOLIDATED	Origination and Management		Securitisation of Mortgages		Total	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Carrying amount of goodwill	13,220	13,220	-	-	13,220	13,220

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2014 and 30 June 2013

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

- Inflation – 2% per annum (2013: 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.
- Expected decrease in the commission rates earned and paid as a result of market and competition driven influences.

Sensitivity to changes in assumptions

Origination and Management

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is considerably greater than its written down carrying value, management believes that reasonably possible changes in the key assumptions, such as a reduction in the average growth rate from 12% to 10% would not cause the recoverable amount of the unit to fall short of its carrying value.

Note 15: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan exists where eligible employees of the Group, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently no members of this plan as all options have been fully exercised as at 30 June 2014.

Options held at the beginning of the reporting period:

No options were held at the beginning of the reporting period (2013: nil).

Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2014 (2013: nil).

Options exercised:

No options were exercised during the year.

Options held as at the end of the year:

There were no options held by employees or any other related parties as at 30 June 2014.

Employee Rights Plan

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

STI deferred share right plan

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

LTI share rights – Retention plan

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

LTI share rights - Performance

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

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

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

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

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

Table 1:

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

Table 2:

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

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

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

	2014		2013	
	Number of rights	Fair value of grant $	Number of rights	Fair value of grant $
Outstanding at the beginning of the year	101,130	63,976	-	-
Granted during the year - LTI	667,478	343,645	-	-
Granted during the year - STI	145,922	96,383	101,130	63,976
Forfeited during the year - LTI	(60,314)	(25,332)	-	-
Outstanding at the end of the year	854,216	478,672	101,130	63,976
Vested at the end of the year	-	-	-	-

Rights held at the beginning of the reporting period:

101,130 rights were held at the beginning of the reporting period (2013: nil).

Rights granted:

667,478 rights were granted by Homeloans Limited during the year ended 30 June 2014 under the Employee LTI Rights Plan (2013: nil).

145,922 rights were granted by Homeloans Limited during the year ended 30 June 2014 under the Employee STI Rights Plan (2013: 101,130).

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

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

The following table summarises information about rights held by employees and other related parties as at 30 June 2013:

Number of rights	Grant date	Vesting date	Expiry date	Fair value of rights $	Average share price $
101,130	22 November 2012	1 September 2014	1 September 2014	0.63	0.72
101,130				0.63	0.72

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

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

Rights vested:

No rights had vested as at 30 June 2014 (2013: nil).

Rights forfeited during the reporting period:

60,314 rights were forfeited during the reporting period (2013: nil).

Note 16: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Current				
Trade payables (1)	583	446	587	450
Payable to related parties:				
- controlled entity (2)	-	-	11,916	11,916
Accrued commissions (3)	593	613	593	613
Sundry creditors and accruals (4)	2,571	2,846	2,057	2,382
Current income tax payable	749	1,395	749	1,395
Interest payable (5)	1,421	468	-	-
Total	**5,917**	**5,768**	**15,902**	**16,756**

Terms and conditions relating to the above financial instruments:

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

2) Details of the terms and conditions of related party payables are set out in note 25.

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

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

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

Refer to note 23 for fair value disclosure.

Note 17: INTEREST-BEARING LIABILITIES

		CONSOLIDATED		HOMELOANS LIMITED	
	Maturity	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current					
Bank loans					
Warehouse facility [1]	30/06/2015	176,252	182,971	-	-
Non-bank loans					
Bonds [2]	2039	9,061	11,944	-	-
Loans from funders [3]	2014 - 2019	318	563	317	561
		185,631	195,478	317	561
Non-Current					
Non-bank loans					
Bonds [2]	2039	22,640	28,648	-	-
Loans from funders [3]	2014-2019	1,275	2,220	1,275	2,220
		23,915	30,868	1,275	2,220
Total		**209,546**	**226,346**	**1,592**	**2,781**

Terms and conditions relating to the above financial instruments:

1) The warehouse facility incurs interest at the bank bill rate plus a margin. The facility is secured by the assets of the warehouse trust. Interest is recognised at an effective rate 3.97% (2013: 4.67%). All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurers must be rated at least A- by Standard & Poor's and A3 by Moody's. The RMT Warehouse facility is a rolling 12 month facility provided by Westpac Banking Corporation ("WBC"). WBC also act as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT trusts. FAI First Mortgage Pty Ltd ("FAIFM") is the Trust Manager and Servicer to all RMT trusts. FAIFM outsource these services to Bendigo and Adelaide Bank Limited who, in their capacity as Trust Manager and Servicer, are rated "Strong" by Standard and Poor's. Perpetual Trustees Limited is the Trustee to all RMT trusts.

   The RMT warehouse has been extended for a further 12 months to 30 June 2014. The warehouse limit was maintained at $200,000,000 in June 2014 (the limit as at 30 June 2013 was $200,000,000). The RMT warehouse facility is supported by cash collateral reserves. The amount required to be held in cash collateral reserves is determined as the greater of $1.5 million cash and 1.75% of the total balance of loans in the Warehouse.

   The warehouse terms continue to require the long term rating of the mortgage insurers in respect of the loans in the warehouse to be at least A- by Standard & Poor's and A3 by Moody's. In the event the ratings are downgraded below these levels, the Company has a reasonable period of time to agree a satisfactory arrangement with the warehouse provider.

2) 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 2.84% (2013: 3.39%).

3) 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 6.04% (2013: 6.47%).

Fair value disclosures

Details of the fair value of the Group's interest bearing liabilities are set out in note 23.

Financing facilities available

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Total Facilities				
- RMT warehouse facility (refer note 17 [1])	200,000	200,000	-	-
	200,000	200,000	-	-
Facilities used at reporting date				
- RMT warehouse facility (refer note 17 [1])	176,252	182,971	-	-
	176,252	182,971	-	-
Facilities unused at reporting date				
- RMT warehouse facility (refer note 17 [1])	23,748	17,029	-	-
	23,748	17,029	-	-

Assets pledged as security

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
ASSETS				
First mortgage				
Loans and advances to customers	204,549	220,816	-	-
Floating charge				
Cash assets	6,888	5,138	-	-
Receivables	2,025	961	-	-
Total assets pledged as security	**213,462**	**226,915**	-	-

Note 18: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Future trailing commissions payable [1]				
- Current	7,725	7,739	4,122	4,199
- Non-current	15,060	13,673	6,855	5,761
	22,785	21,412	10,977	9,960

Terms and conditions relating to the above financial instruments:

1) The fair value of future trailing commission payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing commissions payable to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trailing commission payable is measured at amortised cost. Assumptions used in the assessment of the fair value are disclosed under note 2 (cc). Refer to note 23 for fair value disclosure.

Note 19: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Lease incentives (1)	101	47	101	47

Terms and conditions relating to the lease incentive:

1) Net rental incentives were received in the form of an upfront cash incentive and rent-free periods by the Group for entering into a non-cancellable operating lease for premises occupied by the parent entity. This was entered into in June 2013 in respect of the Head Office of the parent entity.

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

Note 20: PROVISIONS

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Long service leave				
- Current	453	351	453	351
- Non-current	184	250	184	250
	637	601	637	601

Note 21: DERIVATIVE FINANCIAL LIABILITY

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Derivative financial liability classified as held for trading (1)	39	66	-	-

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

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 ($39,000) (2013: ($66,000)) 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.

	Consolidated		Parent	
Notional Principal Amount	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Less than 1 year	2,647	3,628	-	-
1 – 2 years	1,225	2,242	-	-
2 – 3 years	275	542	-	-
3 – 4 years	625	57	-	-
4 – 5 years	-	633	-	-
Total	**4,772**	**7,102**	-	-

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 $27,000 (2013: income of $135,000).

Refer to note 23 for fair value disclosure.

Note 22: ISSUED CAPITAL AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Ordinary shares issued and fully paid	39,029	66,131	39,029	66,131
	39,029	66,131	39,029	66,131

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 2012	**106,643**	**66,114**	**106,643**	**66,114**
Issued on dividends reinvested	323	225	323	225
Shares bought back during the year	(311)	(208)	(311)	(208)
At 30 June 2013	**106,655**	**66,131**	**106,655**	**66,131**
Issued on dividends reinvested	368	297	368	297
Shares bought back during the year	(1,909)	(1,449)	(1,909)	(1,449)
Capital reduction	-	(25,950)	-	(25,950)
At 30 June 2014	**105,114**	**39,029**	**105,114**	**39,029**

Share options

There were no options over ordinary shares granted during the financial year (2013: nil). At the end of the year there were no unissued ordinary shares in respect of which options were outstanding (2013: nil). For more information refer to Note 15.

No shares were issued on options exercised during the year (See Note 15).

Dividend Reinvestment Plan

367,457 ordinary shares were issued on dividends reinvested as part of the Company's Dividend Reinvestment Plan.

Share buybacks

1,908,838 shares were bought back during the year under the existing share buyback program.

Capital Management Plan

The Group's capital comprises share capital, reserves plus retained earnings amounting to $41,537,000 at 30 June 2014 (2013: The Group's capital comprised share capital, reserves less accumulated losses amounting to $42,758,000). The primary objectives of the Group's capital management is to ensure that the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest costs of capital available to the Group.

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

The Company is also subject to an externally imposed capital requirement by the Australian Securities & Investments Commission (ASIC). In accordance with Condition 4 of the Company's Australian Financial Services Licence, it must (a) be able to pay all its debts as and when they become due and payable; (b) have total assets that exceed total liabilities; (c) have no reason to suspect that its total assets would not exceed its total liabilities; and (d) demonstrate, based on cashflow projections, that it will have access to sufficient financial resources to meet its short term liabilities. The Company complied with this requirement for both the year ended 30 June 2014 and the year ended 30 June 2013.

Capital reduction

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

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

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

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

Retained earnings/Accumulated losses

Movements in retained earnings/accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Balance 1 July	(24,189)	(25,008)	(31,958)	(31,974)
Net profit for the year	6,205	7,736	3,693	6,933
Dividends	(6,398)	(6,917)	(6,398)	(6,917)
Capital reduction	25,950	-	25,950	-
Balance 30 June	**1,568**	**(24,189)**	**(8,713)**	**(31,958)**

Share Based Payment Reserve

Movements in the share based payment reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Balance 1 July	816	816	816	816
Charge for the period	124	-	124	-
Balance 30 June	**940**	**816**	**940**	**816**

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

The rights fair value is calculated using Hoadley's Hybrid ESO valuation models and expensed over the period in which the rights vest. The value allocated to each right issue is determined, among other things, by reference to, the share price at the date of grant, the volatility of the share price, and current risk free interest rates (refer to note 15).

Note 23: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Credit risk exposures

Credit risk is the risk that the group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The group has established lending policies and procedures to manage the credit risk inherent in lending. The dominant lending focus has been in the housing market where standard lending practice is that the borrowing facilities for each client is mortgaged secured against residential property and via lenders mortgage insurance. In addition, loan balances are monitored with the result that the Group's exposure to bad debts is monitored and managed. Refer to note 10 for an ageing analysis of the loans.

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

- 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
ASSETS				
Cash assets	13,798	17,175	6,802	11,957
Receivables	5,253	4,301	12,307	13,646
Loans and advances to customers (1)	203,405	219,353	-	-
Other financial assets	52,016	49,757	37,538	35,433
Total	**274,472**	**290,586**	**56,647**	**61,036**

1) Please refer to Note 17 (1) for information relating to the RMT Warehouse.

Credit exposure by credit rating

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

Loans and advances are for residential borrowers, who are not rated. All loans are individually mortgage insured by "A- / A3" equivalent rated insurers.

Concentration of credit risk

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

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

Liquidity risk

Liquidity risk is the risk that the Group will be able to meet its payment obligations when they fall due under normal and stress circumstances. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and credit facilities to meet its obligations as they fall due. Surplus funds are generally invested in at call bank accounts or instruments with maturities of less than 90 days. Within the RMT SPV's, the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 17, the Group has unused warehouse facilities at the reporting date.

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

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

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 2015 and there continues to be regular discussions with the warehouse provider as to the future utilisation and maturity of the facility. Supporting the ongoing use of the facility, the Group re-commenced writing loans in the warehouse facility during the year and intend to continue this into the 30 June 2015 financial year. It should be noted that the warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

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

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

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

CONSOLIDATED		Maturity analysis					
	Balance $'000	0 – 6 months $'000	6 – 12 months $'000	1 – 3 years $'000	3 – 5 years $'000	> 5 years $'000	Total $'000
30 June 2013							
Financial Liabilities							
Trade payables	5,768	5,768	-	-	-	-	5,768
Interest bearing liabilities							
- RMT Warehouse facility	182,971	32,702	156,957	-	-	-	189,659
- Bonds	40,592	6,944	5,827	15,334	7,621	8,610	44,336
- Loans from funders	2,783	364	357	1,321	1,182	-	3,224
Trailing commissions payable	21,412	4,373	3,855	10,135	4,995	5,124	28,482
Derivative financial liability	66	4	13	41	10	-	68
Total	**253,592**	**50,155**	**167,009**	**26,831**	**13,808**	**13,734**	**271,537**

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 2014							
Financial Liabilities							
Trade and other payables	15,902	15,902	-	-	-	-	15,902
Interest bearing liabilities							
- Loans from funders	1,592	207	202	756	677	-	1,842
Trailing commissions payable	10,977	2,523	2,096	5,280	2,367	1,606	13,872
Total	**28,471**	**18,632**	**2,298**	**6,036**	**3,044**	**1,606**	**31,616**

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 2013							
Financial Liabilities							
Trade and other payables	16,756	16,756	-	-	-	-	16,756
Interest bearing liabilities							
- Loans from funders	2,781	364	355	1,321	1,182	-	3,222
Trailing commissions payable	9,960	2,451	1,994	4,788	1,948	1,311	12,492
Total	**29,497**	**19,571**	**2,349**	**6,109**	**3,130**	**1,311**	**32,470**

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

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

Interest rate risk

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

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

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

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

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

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

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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Financial Assets				
Cash and cash equivalents	13,798	17,175	6,802	11,957
Loans and advances to customers	198,633	212,251	-	-
Derivative financial instrument (notional value)	4,772	7,102	-	-
	217,203	236,528	6,802	11,957
Financial liabilities				
Interest-bearing liabilities - floating	(209,546)	(226,346)	(1,593)	(2,781)
	(209,546)	(226,346)	(1,593)	(2,781)
Net Exposures	**7,657**	**10,182**	**5,209**	**9,176**

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.

	2014		2013	
Movement in variable	Net Profit / (Loss) after tax $'000	Total Equity $'000	Net Profit / (Loss) after tax $'000	Total Equity $'000
Consolidated				
+ 100bps	54	54	71	71
- 100bps	(54)	(54)	(71)	(71)
Parent				
+ 100bps	36	36	64	64
- 100bps	(36)	(36)	(64)	(64)

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 10 and note 18 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.

	2014		2013	
Movement in variable	**Net Profit / (Loss) after tax**	**Total Equity**	**Net Profit / (Loss) after tax**	**Total Equity**
	$'000	**$'000**	**$'000**	**$'000**
Consolidated				
+ 10%	(1,722)	(1,722)	(1,795)	(1,795)
-10%	1,968	1,968	2,078	2,078
Parent				
+ 10%	(1,604)	(1,604)	(1,666)	(1,666)
-10%	1,825	1,825	1,935	1,935

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

Fair values

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

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

Recognised Financial Instruments

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

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

The fair value of interest rate swap contracts is determined by reference to market value for similar instruments. The valuation is classified as level 2 in the fair value measurement hierarchy. The future trailing commissions receivable and future trailing commissions payable have a carrying amount that approximates fair value.

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

	Carrying amount		Fair value	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Consolidated				
Financial assets				
Cash	13,798	17,175	13,798	17,175
Receivables	5,253	4,301	5,253	4,301
Loans and advances to customers	203,405	219,353	203,405	219,353
Other financial assets (1)	52,016	49,757	52,016	49,757
Financial liabilities				
Payables	5,917	5,768	5,917	5,768
Interest bearing liabilities	209,546	226,346	209,546	226,346
Other financial liabilities (1)	22,824	21,478	22,824	21,478

	Carrying amount		Fair value	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Parent				
Financial assets				
Cash	6,802	11,957	6,802	11,957
Receivables	12,307	13,646	12,307	13,646
Other financial assets (1)	37,538	35,433	37,538	35,433
Financial liabilities				
Payables	15,902	16,756	15,902	16,756
Interest bearing liabilities	1,592	2,781	1,592	2,781
Other financial liabilities (1)	10,977	9,960	10,977	9,960

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

	Year ended 30 June 2014	Year ended 30 June 2013
Weighted average loan life	4 years and 3 months	4 years and 1 month
Discount rate	12.0%	12.0%

Note 24: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases on its office space requirements. Operating leases have an average remaining lease term of 2.1 years (2013: 2.6 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Within one year	1,092	1,347	1,092	1,347
After one year but not more than five years	1,979	3,071	1,979	3,071
	3,071	4,418	3,071	4,418

Operating lease commitments – Group as lessor

The Group has not entered into any commercial property leases. Operating leases ceased during the 2014 financial year (2013: 0.2 years).

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Within one year	-	138	-	138
	-	138	-	138

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 9.25% 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.

Note 25: 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	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Parent entity					
Homeloans Limited	Australia				
Controlled entities of Homeloans Limited:					
NSW Home Loans Pty Ltd	Australia	100%	100%	-	-
VIC Home Loans Pty Ltd	Australia	100%	100%	-	-
QLD Home Loans Pty Ltd	Australia	100%	100%	-	-
SA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
WA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
IF & I Securities Pty Ltd	Australia	100%	100%	-	-
FAI First Mortgage Pty Ltd	Australia	100%	100%	-	-
Access Home Loans Consolidated incorporating:				6,869	6,869
- Access Network Management Pty Ltd	Australia	100%	100%	-	-
- Access Home Loans Pty Ltd	Australia	100%	100%	-	-
- HLL Pty Ltd	Australia	100%	100%	-	-
Independent Mortgage Corporation Pty Ltd	Australia	100%	100%	-	-
RMT Warehouse Trust No.2 (1)	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 (1)	Australia	100%	100%	-	-
Auspak Financial Services Pty Ltd	Australia	100%	100%	1,466	1,466
				8,335	8,335

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

The Group manages and services trusts that hold residential mortgage-backed assets and securitised financial liabilities and retains the right to the residual income of these trusts. The Group has concluded that the RMT SPVs meet the criteria of being controlled entities under AASB 10 – Consolidated financial statements because the Group has power to appoint the SPV manager to direct relevant activities of the SPVs as stipulated in the Trust Deed. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the Statement of Financial Position using the effective interest method with the related interest earned and interest paid recognised through the consolidated Statement of Comprehensive Income.

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 16).

		Sales to related parties $	Purchases from related parties $	Amounts owed by related parties $	Amounts owed to related parties $
Other related parties:					
Advantedge Financial Services (Division of National Australia Bank 'NAB')	2014	6,980,075	-	-	-
	2013	7,312,876	-	-	-
Macquarie Securitisation Limited	2014	45,160	-	-	-
	2013	-	-	-	-

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

Note 26: EVENTS AFTER BALANCE DATE

On 25th August, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2014 of 2.0 cents per share, fully franked. The dividend has not been provided for in the 30 June 2014 financial statements. The final dividend is payable on 3rd October 2014.

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 27: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $	2013 $	2014 $	2013 $
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	266,538	301,073	224,617	221,079
• a compliance audit or review of the financial report of the entity and any other entity in the consolidated group	8,240	8,240	8,240	8,240
	274,778	309,313	232,857	229,319
Amounts received or due and receivable by Ernst & Young (Australia) for non-audit services:				
• Advisory services	-	25,542	-	25,542
	274,778	334,855	232,857	254,861

Note 28: DIRECTORS AND EXECUTIVE DISCLOSURES

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2014 $	2013 $	2014 $	2013 $
Short-Term	1,090,873	1,263,293	1,090,873	1,263,293
Post Employment	89,441	108,373	89,441	108,373
Other Long-Term	-	93,457	-	93,457
Termination Benefits	193,842	183,783	193,842	183,783
Share-based Payment	79,990	19,356	79,990	19,356
	1,454,146	1,668,262	1,454,146	1,668,262

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 2014 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 2014.

On behalf of the Board

Timothy A. Holmes

Chairman

Perth, 25 September 2014

Building a better working world

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
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 2014, 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 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

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

   i. giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2014 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 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Peter McIver

Peter McIver
Partner
Perth
25 September 2014

INVESTOR INFORMATION

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

The information has been prepared as at 19 September 2014

(a) Substantial Shareholder details:

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

Substantial Holder	Number of ordinary shares in which interest held
Macquarie Bank Limited	21,159,193
National Australia Bank Limited	18,983,030
Redbrook Nominees Pty Ltd & Acres Holdings Pty Ltd	14,872,656
Timothy Alastair Holmes & Bond Street Custodians Ltd (TA Holmes A/c) & Tico Pty Ltd (TA Holmes Family A/c) & Bond Street Custodian Ltd (TA Holmes Superfund A/c) & Bond Street Custodian Ltd (Carol Mary Holmes A/c) & Joanna Mary Holmes & Tiffany Eliza Farrar Holmes & Lucy Caroline Holmes	12,847,024
Robert Peter Cockburn Salmon & Peterlyn Pty Ltd (Salmon Family Fund A/c) & Peterlyn Pty Ltd (Salmon Superfund A/c)	10, 977,449
Hartley Philips Securities Pty Ltd	4,612,318

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

There are 800 holders of Ordinary Shares

(c) Voting Rights

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

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

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

Size of holdings	Ordinary Shares Number of holders
1 – 1,000	92
1,001 – 5,000	310
5,001 – 10,000	133
10,001 – 100,000	221
100,001 and over	44
TOTAL	**800**

There are 47 shareholders with less than a marketable parcel of shares. A marketable parcel of shares is defined by the ASX as a parcel of shares worth more than $ 500.00.

(e) Top 20 holders of Ordinary Shares:

Name	Ordinary Number of Shares held	Shares % holding
Macquarie Bank Limited	21,159,193	20.11
National Australia Bank Limited	18,983,030	18.04
Redbrook Nominees Pty Ltd	13,375,775	12.72
Peterlyn Pty Ltd	10,612,856	10.09
Tico Pty Ltd	8,123,944	7.72
Hartley Phillips Securities Pty Ltd	4,612,318	4.38
Bond Street Custodians Ltd (CPCPL - V73544A/c)	4,157,016	3.95
Top 4 Pty Ltd (Foundation Invest SF A/c)	3,446,317	3.28
Ferber Holdings Pty Ltd	1,661,497	1.58
Bond Street Custodians Ltd (IAH-V20818 A/c)	1,500,000	1.43
Acres Holdings Pty Ltd	1,496,881	1.42
Daisson Holdings Pty Ltd (Lonie Super A/c)	600,000	0.57
Equitas Nominees Pty Ltd (3021524 A/c)	496,800	0.47
Carpenter Nominees Pty Ltd	494,619	0.47
Bond Street Custodians Ltd (CPCPL - V12870 A/c)	435,900	0.41
JAMAC Holdings Pty Ltd	429,955	0.41
Beneficial Home Loans Pty Ltd	401,888	0.38
Mr Robert Peter Salmon	364,593	0.35
Terrine Investments Pty Ltd	312,000	0.30
NSR Investments Pty Ltd (NSR Super Find A/c)	311,000	0.30
TOTAL	**92,975,582**	**88.38**

(f) Share Trading

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

(g) Share Buyback

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