Homeloans

ANNUAL REPORT 2017

PROVIDING SOLUTIONS SINCE 1985.

WELCOME TO OUR 2017 ANNUAL REPORT

In October 2016, RESIMAC Limited and Homeloans Limited merged to create a leading non-bank lending and multi-channel distribution business within Australia and New Zealand.

This report covers our first year as a merged entity.

PROVIDING SOLUTIONS SINCE 1985.

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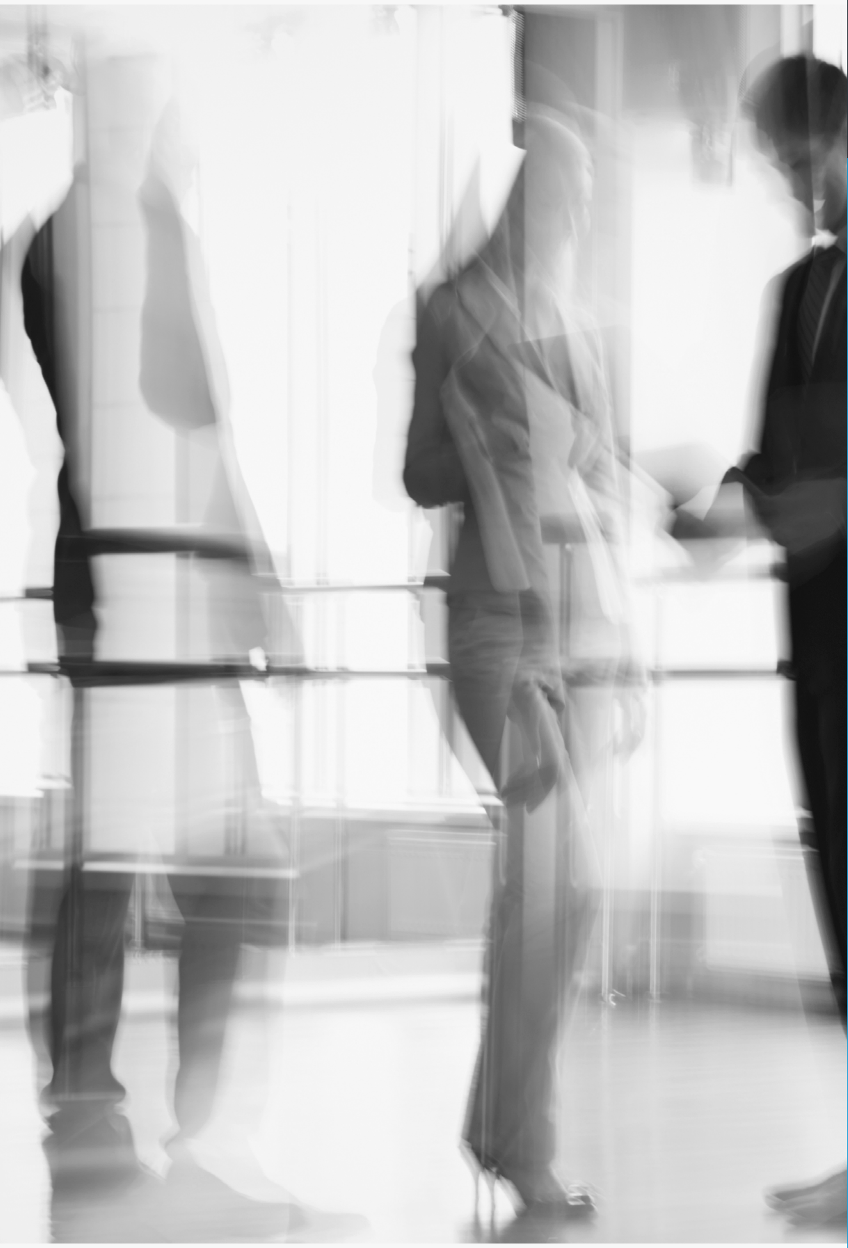
WHO WE ARE



Assets Under Management in excess of

$10 billion

PRODUCTS

We offer a range of mortgage solutions - both Prime and Specialist Lending.

We also offer novated leasing products.

CHANNELS

We offer customers their "Channel of Choice"

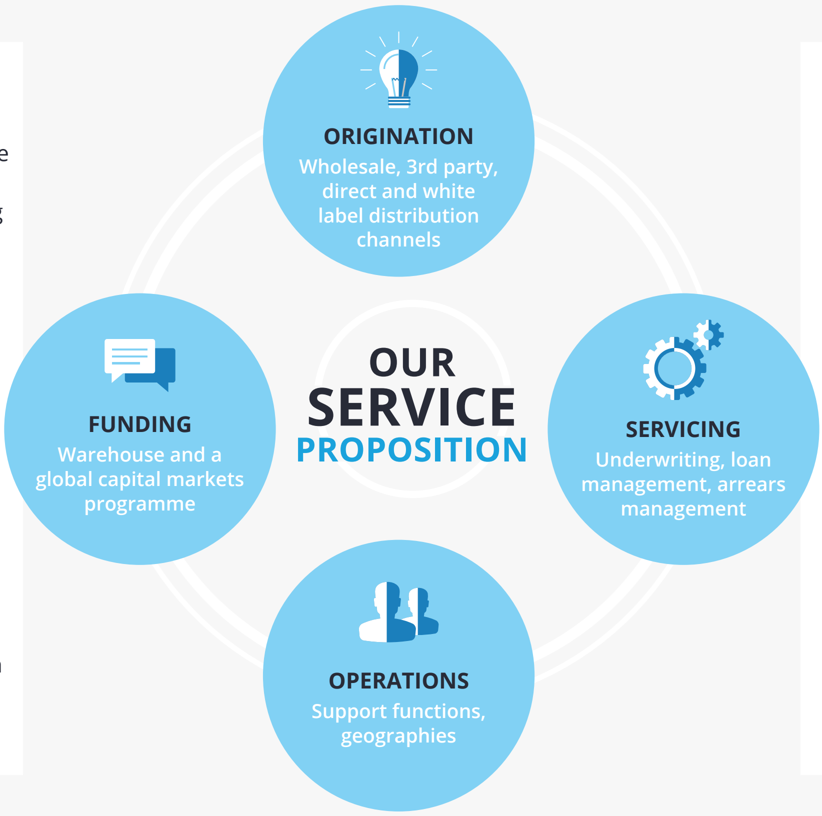
They can engage with us via Brokers, Online and Direct.

We are a profitable organisation with diverse income streams - net interest margin on principally funded loans, annuity trail income on non-principally funded loans and other fee income. We operate a proprietary servicing platform with a Standard & Poor's ('S&P') "Strong" Servicer Ranking, which was reaffirmed in February 2017.

Strong funding capabilities - long standing warehouse relationships for short-term funding

Diversified long-term funding platform with global multi-currency issuance programmes

Well established white label arrangement with leading domestic banks



A full range of home loans from Prime Lending and Specialist Lending products

Assets Under Management in excess of $10 billion

Diversified distribution platform originating $3.6 billion p.a.

BRANDS

We have a number of brands now in the Homeloans family...

...all with a key role to play.

Homeloans

RESIMAC

Homeloans.com.au

State Custodians

iMortgage.com.au

paywise salary packaging

MESSAGE
FROM THE CHAIRMAN

Dear Shareholders,

This year we experienced a major milestone in the history of Homeloans Ltd, with the merger between Homeloans and RESIMAC.

The merger was a key strategic move for both organisations. We identified a number of opportunities to leverage the strengths of each, and areas where we could find synergies and efficiencies. To this end we are making great progress – already realising our expected merger synergies and seeing strong results for our shareholders.

Financial Results

Our financial results have been strong across all areas.

We are very pleased to report an underlying Net Profit After Tax (NPAT) of $18.7M and a fully-franked dividend of 0.75 cents per share. We have also seen Assets Under Management (AUM) increase by 14.6% - driven by strong growth in settlements of 20% - and our expected merger synergies are ahead of schedule at more than $6M.

While the integration activities are still in progress, we are very encouraged by the strong results that we have managed to achieve during this phase.

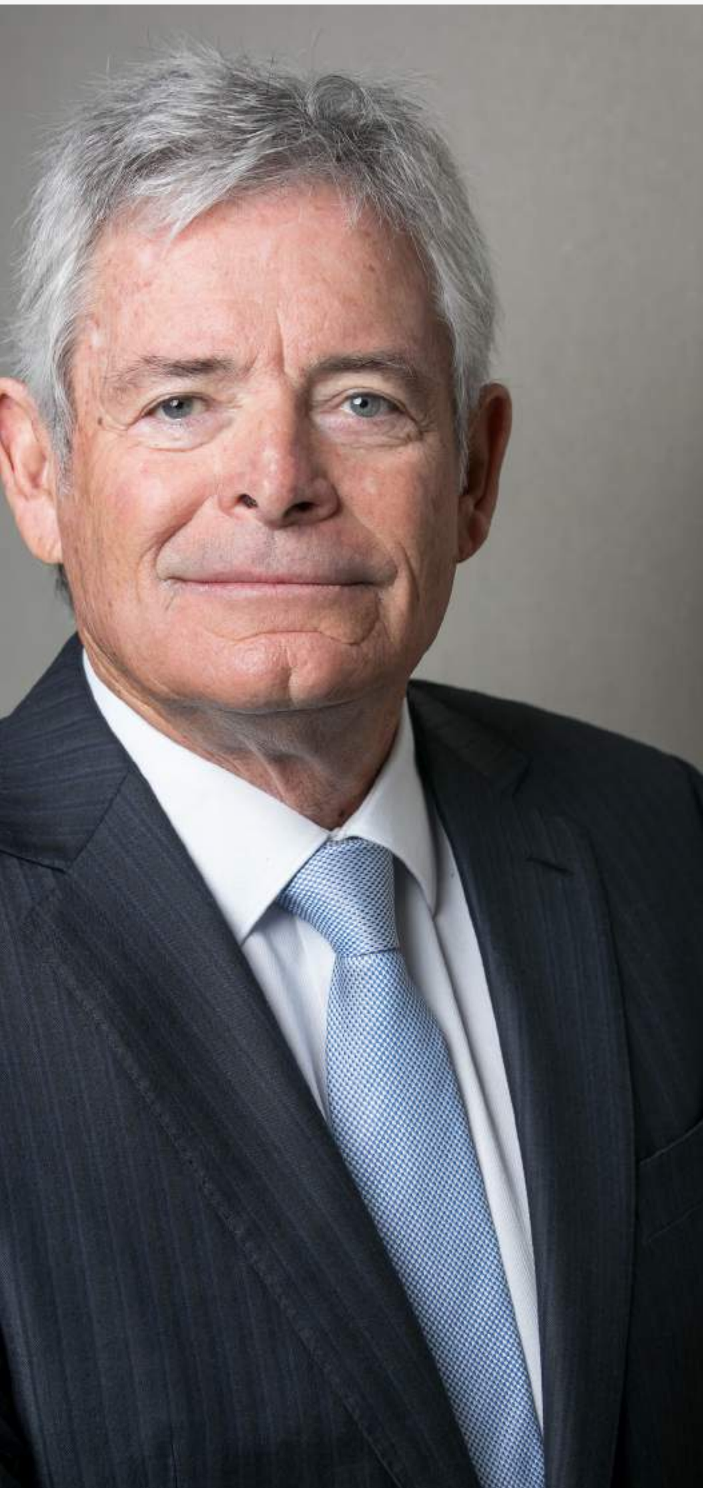
Net Interest Income	Assets Under Management	Total Settlements Growth
$82.5 million	**$10.2 billion**	**20.0%**

The Market Is With Us

The market has served us well during the last 12 months. We have seen strong market conditions along with changes in regulation that support the growth of the non-bank sector.

Of particular interest to us is the ongoing validation of the Third Party Broker channel and its viability. In addition, the industry move towards prioritising the customer experience is supporting the development of our digital and operational efficiency strategies.

We are well placed to take advantage of these market conditions now and into the future.



Board Composition

A number of Directorship changes took place during the year. In October we appointed Susan Hansen, Michael Jefferies and Warren McLeland to the Board, all Directors of RESIMAC prior to the merger. At this time, Michael Starkey tendered his resignation. Mr Starkey had served on the Board since 2013, and I sincerely thank him for his contribution to our organisation.

In April, we appointed Chum Darvall AM to the Board in the position of Non-Executive Deputy Chairman. Mr Darvall brings a wealth of experience in the finance sector, having previously held positions of Non-Executive Vice Chairman and Chief Executive Officer of Deutsche Bank Australia and New Zealand. We welcome Mr Darvall to the Board, the company is set to benefit enormously from this appointment.

Thank You

Having moved through the last 12 months with such positive indicators, I have great confidence in the strategy and growth ambitions for the company, now and into the future.

I'd like to take this opportunity to thank my fellow Board members and the management team and staff for their professionalism during the merger process, and wish everyone the best for the next exciting chapter of the Homeloans story.

Robert Scott
Independent Non-Executive Chairman

THE YEAR IN REVIEW
FROM OUR JOINT CEOs

We are proud to be leading our newly-formed organisation at this exciting time for Homeloans Ltd.

Having commenced our partnership focusing on integrating the two companies successfully, we are now overseeing a merged entity with a strong foundation for growth – leveraging the strengths that both organisations have brought to the table.

CUSTOMERS
50,000+
mortgage customers

SETTLEMENTS
Over **$3.6bn** of mortgage settlements in FY17

PEOPLE
250+ staff operating across Australia & New Zealand

DISTRIBUTION
Broad distribution base with:
- Access to over 85% of the mortgage broker market
- Direct to consumer access through online presence

SHAREHOLDERS
ASX Listed (HOM) with market capitalisation of
$169 million as at 30 June 2017

FUNDING
$5bn+ in term capital markets funding across a variety of domestic and international investors
$2.5bn+ in revolving warehouse facilities with major Australian banks

PORTFOLIO
Assets Under Management of
$10.2 billion
Principally funded loans and advances **$6.6bn**
Non-principally funded loan portfolio **$3.6bn**

Momentum Through Change

We have had a number of performance highlights over the last 12 months, which is a testament to both the success of the merger, and the focus of the team.

Our performance highlights include:

Settlements growth of 20%

- We've continued to receive positive support from our Third Party channel, and this has been complemented by strong growth in our Direct channel.

Strong support of funding program

- Our funding program serves us well due to strong investor and banking relationships, exceptional underlying asset performance and consistent issuance across multiple jurisdictions. This year we issued $2.25bn in RMBS, with investors from Australia, USA, Europe and Asia.

Achievement of synergies

- We've achieved our synergy target by focusing on cost and growth priorities including:
  - Establishment of new management team and structure
  - Strong growth of principally funded loans across all distribution channels
  - Consolidation of functions and systems
  - Process improvement and outsourcing

SCOTT MCWILLIAM & **MARY** PLOUGHMAN

Joint Chief Executive Officers

Planning for the Future

As part of our integration activities, we have developed our vision and strategy moving forward. We believe our opportunity is to continue to build on the strengths each company brings, and to maximise our opportunities within our chosen segments.

> *Our vision is to become* ***a recognised leader*** *in the non-bank sector.*

To do this, we will:

- Create a best-in-class customer experience
- Continue to develop our strong funding platform
- Support and evolve our distribution strategy to maximise our market penetration
- Focus on process efficiencies to create a scalable and profitable operating model

We join with the Chairman in offering our thanks to the Board, Management team and staff for their support and professionalism over the last 12 months. Our successful integration and achievement of such strong results would not have been possible without their dedication and commitment.

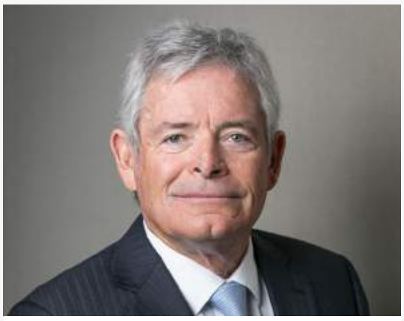
We look forward to leading the organisation toward our vision and seeing ongoing strong results everyone can be proud of.

Scott McWilliam **Mary Ploughman**

Joint Chief Executive Officers

BOARD
OF DIRECTORS

The Directors of Homeloans Limited present their report together with the financial report consisting of Homeloans Limited ('the company', 'parent', or 'Homeloans') and its controlled entities ('the Group') for the financial year ended 30 June 2017 and the independent auditor's report thereon.



Robert Scott

CHAIRMAN

INDEPENDENT NON-EXECUTIVE DIRECTOR

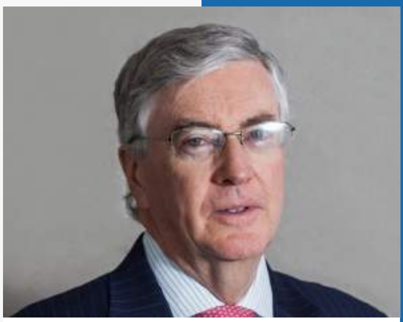
Rob is a Chartered Accountant with over 35 years' experience as a former international partner with Arthur Anderson and as a corporate advisor with Perth based Gooding Partners Chartered Accountants. Rob has served on various publicly listed company boards over the past 20 years and became a Director in November 2000.

Chum Darvall, AM

DEPUTY CHAIRMAN

INDEPENDENT NON-EXECUTIVE DIRECTOR

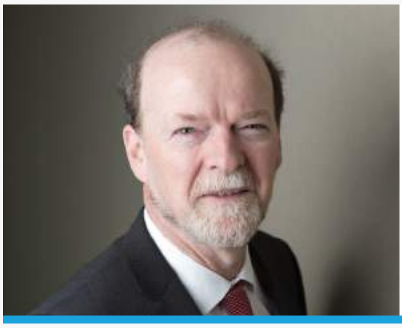
Chum previously was Non-Executive Vice Chairman of Deutsche Bank and prior to that Chief Executive Officer of Deutsche Bank Australia and New Zealand from 2002 to 2011. He was also formerly the Chairman of TransGrid appointed by the New South Wales Government, until its sale in December 2015. Chum holds a Bachelor of Arts from Macquarie University, is a Senior Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors.



Warren McLeland

NON-EXECUTIVE DIRECTOR

Warren is a former stockbroker and investment banker with over 30 years' experience in domestic and international financial services. In addition, he acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. He is the former Executive Chairman of RESIMAC Limited.



Peter Fitzpatrick

COMPANY SECRETARY

Peter is the Company Secretary. He is a Chartered Accountant who worked for a chartered firm and oil explorer before joining RESIMAC in 1987. Peter is responsible for RESIMAC's governance framework. Peter is also a member of the Governance Institute of Australia, the Financial Services Institute of Australasia and the Institute of Internal Auditors.

Robert Salmon

INDEPENDENT NON-EXECUTIVE DIRECTOR

Rob has 46 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. He has a Bachelor of Economics from the University of Western Australia.

Susan Hansen

INDEPENDENT NON-EXECUTIVE DIRECTOR

Susan is a Chartered Accountant and holds a Bachelor of Commerce degree and an MBA from the University of Cape Town. Susan has 35 years' of experience including a Big Four Accounting firm and an investment bank (financial analysis and risk assessment). Susan is a specialist in risk management including market risk management.

Michael Jefferies

INDEPENDENT NON-EXECUTIVE DIRECTOR

Michael is a Chartered Accountant and holds a Bachelor of Commerce degree. He has extensive experience in finance and investment, including 20 years as an executive at Guinness Peat Group, and currently serves on a number of boards.

DIRECTORS' REPORT

Homeloans Limited and its Controlled Entities

The Directors of Homeloans Limited (the Company or Homeloans) and its controlled entities (the Group) submit herewith the financial report for the financial year ended 30 June 2017. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

Mr Robert Scott

Chairman since November 2014
Independent Non-Executive Director

Rob is a Chartered Accountant with over 35 years' experience as a former international partner with Arthur Anderson and as a corporate adviser with Perth based Gooding Partners Chartered Accountants. Rob has served on various publicly listed company boards over the past 20 years and became a director in November 2000.

Other Listed Directorships (Last Three Years):

- Non-executive director of Lonestar (US) Inc. (resigned 31 March 2017)
- Non-executive director of RTG Mining Inc (since 2013)
- Non-executive director of Sandfire Resources NL (since July 2010)

Special Responsibilities:

- Chairman of Homeloans Limited (since 17 November 2014)
- Member of the Audit Committee (appointed 10 November 2016)

Mr Cholmondeley (Chum) Darvall, AM

Deputy Chairman since April 2017
Independent Non-Executive Director

Chum was previously Non-Executive Vice Chairman of Deutsche Bank and prior to that Chief Executive Officer of Deutsche Bank Australia and New Zealand from 2002 to 2011. He was also formerly the Chairman of TransGrid appointed by the New South Wales Government, until its sale in December 2015. Chum holds a Bachelor of Arts, is a Senior Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors.

Special Responsibilities:

- Deputy Chairman of Homeloans Limited (since April 2017)
- Member of the Remuneration and Nomination Committee (appointed 24 August 2017)
- Member of the Risk and Compliance Committee (appointed 24 August 2017)

Mr Warren McLeland

Non-Executive Director since October 2016

Warren is a former stockbroker and investment banker with over 30 years' experience in domestic and international financial services. In addition, he acts as an adviser in funds management and business strategy to companies operating in the Asia Pacific region. He is the former Executive Chairman of RESIMAC Limited.

Other Listed Directorships (Last Three Years):

- Chairman of Somers Limited incorporated in Bermuda (since 2010)
- Non-executive director of UIL Limited (since 2013)

Special Responsibilities:

- Chairman of the Risk and Compliance Committee (appointed 2 February 2017)
- Member of the Remuneration and Nomination Committee (appointed 10 November 2016)
- Member of the Audit Committee (appointed 24 August 2017)

Mrs Susan Hansen

Independent Non-Executive Director since October 2016

Susan is a Chartered Accountant and holds a Bachelor of Commerce degree and an MBA from the University of Cape Town. Susan has 35 years' experience including a Big Four Accounting firm and an investment bank (financial analysis and risk assessment). Susan is a specialist in risk management including market risk management.

Other Listed Directorships (Last Three Years):

- Non-executive director of Utilico Emerging Markets Limited (since 2013)

Special Responsibilities:

- Chairman of the Audit Committee (appointed 10 November 2016)
- Member of the Remuneration and Nomination Committee (appointed 10 November 2016)
- Member of the Risk and Compliance Committee (appointed 10 November 2016)

Mr Duncan Saville

Alternate Director since February 2017

Duncan is a Chartered Accountant. He is an experienced non-executive director having previously been a company director in the utility, investment, financial services, mining and technology sectors. His Fellowships include the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia. Duncan is an Alternate Director for Warren McLeland.

Other Listed Directorships (Last Three Years):

- Non-executive director of Cue Energy Resources Limited (since 2016)
- Non-executive director of New Zealand Oil and Gas Limited, incorporated in New Zealand (since 2014)
- Non-executive director of Somers Limited, incorporated in Bermuda (since 2012)
- Non-executive director of West Hamilton Holdings Limited, incorporated in Bermuda (since 2012)
- Former non-executive director of Infratil Limited, incorporated in New Zealand (retired 24 August 2016) and Touchcorp Limited (retired 30 August 2017).

Special Responsibilities:

- Alternate for Warren McLeland (appointed 2 February 2017)

Mr Robert Salmon

Independent Non-Executive Director since November 2000

Rob has 46 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. He has a Bachelor of Economics from the University of Western Australia.

Special Responsibilities:

- Member of the Remuneration and Nomination Committee (appointed 10 November 2016)

Mr Michael Jefferies

Independent Non-Executive Director since October 2016

Michael is a Chartered Accountant and holds a Bachelor of Commerce degree. He has extensive experience in finance and investment, including 20 years' as an executive at Guinness Peat Group, and currently serves on a number of boards.

Other Listed Directorships (Last Three Years):

- Independent Non-executive director of Ozgrowth Limited (since October 2007)
- Independent Non-executive director of Afterpay Touch Group Limited (since June 2017) having formerly been Executive Chairman and Acting Chief Executive of Touchcorp Limited and Independent Non-executive director of Afterpay Limited prior to the merger of these two companies to form Afterpay Touch Group Limited
- Independent Non-executive chairman of Pantoro Limited (since October 2016)

Special Responsibilities:

- Chairman of the Remuneration and Nomination Committee (appointed 10 November 2016)
- Member of the Audit Committee (appointed 10 November 2016)

The above named directors held office during the financial year and since the end of the financial year, or date of appointment, except for:

- Mr Michael Starkey - resigned 25 October 2016

Directors' Shareholdings

The following table sets out each directors' relevant interest in shares and rights of the company of a related body corporate as at 30 June 2017:

Directors	Fully paid ordinary shares	Number of rights over ordinary shares
Robert Scott	2,156,116	Nil
Chum Darvall	1,175,000	Nil
Robert Salmon	10,627,449	Nil
Warren McLeland	11,440,055	Nil
Duncan Saville	231,922,076	Nil
Susan Hansen	100,000	Nil
Michael Jefferies	648,564	Nil

Remuneration of Key Management Personnel

Information about the remuneration of key management personnel (KMP) is set out in the remuneration report section of this Director's report. The term 'KMP' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its controlled entities or indirectly, including any director (whether executive or otherwise of the consolidated entity).

Shares Options or Rights Granted to Directors and Senior Management

During the year there were no options or rights granted to directors and senior management.

Company Secretary

Peter Fitzpatrick, who was appointed Company Secretary of Homeloans Limited on 10 November 2016, is a Chartered Accountant who worked for a chartered accounting firm and oil explorer prior to joining RESIMAC Limited in 1987 as Finance and Administration Manager and Company Secretary. He is a member of the Governance Institute of Australia, the Financial Services Institute of Australasia and the Institute of Internal Auditors.

Jennifer Murray retired as Company Secretary on 28 March 2017.

Merger of Homeloans Limited and RESIMAC Limited

On 13 October 2016, Homeloans acquired 100% of the share capital of RESIMAC Limited (RESIMAC) in exchange for shares in Homeloans Limited. The acquisition of RESIMAC is considered a reverse acquisition, with RESIMAC being considered the parent for accounting purposes and the business combination being accounted for under AASB 3 Business Combinations.

The consolidated financial statements therefore reflect a continuation of the financial statements of RESIMAC.

The consolidated financial statements for the year ended 30 June 2017 under reverse acquisition accounting principles, include the results of RESIMAC for the twelve months and Homeloans for the period from 13 October 2016 as summarised in the table below:

	12 months to 30 June 2017	12 months to 30 June 2016
Statement of profit or loss and other comprehensive income	RESIMAC + Homeloans 13 Oct - 30 June	RESIMAC only
Statement of changes in equity	RESIMAC + Homeloans 13 Oct - 30 June	RESIMAC only
Statement of cash flows	RESIMAC + Homeloans 13 Oct - 30 June	RESIMAC only

	As at 30 June 2017	As at 30 June 2016
Statement of financial position	RESIMAC + Homeloans	RESIMAC only

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

During the financial year, 11 board meetings, 3 Audit, 2 Audit and Risk Management and 2 Remuneration and Nomination committee meetings were held.

			Committees					
	Board Meetings		Audit [3]		Audit & Risk Management [2]		Remuneration & Nomination [1]	
Director	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
Robert Scott	11	11	3	3	2	2	-	-
Chum Darvall	3	2	-	-	-	-	-	-
Robert Salmon	11	10	-	-	2	2	2	2
Warren McLeland	7	6	-	-	-	-	2	1
Susan Hansen	7	7	3	3	-	-	2	2
Michael Jefferies	7	5	3	1	-	-	2	2
Michael Starkey	4	3	-	-	2	2	-	-
Duncan Saville[4]	1	1	-	-	-	-	-	-

(A) Number of meetings eligible to attend.
(B) Number of meetings attended.

1 The Nomination & Remuneration Committee was renamed the Remuneration & Nomination Committee in November 2016.
2 The Audit & Risk Management Committee operated up until the time of the merger in October 2016.
3 A separate Audit Committee and Risk & Compliance Committee was created post merger in October 2016.
4 Mr Duncan Saville is an alternate director to Warren McLeland (appointed 2 February 2017).

Results and Dividends

The information appearing on pages 17 to 23 forms part of the Directors' Report for the financial year ended 30 June 2017 and is to be read in conjunction with the following information:

	FY17 $'000	FY16 $'000
Profit		
Profit attributable to ordinary equity holders of the parent	**15,780**	13,048
Dividends		
The following dividends have been paid by the company or declared by the Directors since the commencement of the financial year ended 30 June 2017:		
(a) out of the profits for the year ended 30 June 2016 and retained earnings on the fully-paid ordinary shares:		
▪ fully-franked final dividend of 2.0 cents (FY15: nil) per share paid on 28 October 2016 [1]	**2,165**	-
(b) out of the profits for the half-year ended 31 December 2016 and retained earnings on the fully-paid ordinary shares:		
▪ fully-franked final dividend of 0.75 cents (HY16: nil) per share paid on 12 April 2017	**2,953**	-
(c) out of the profits for the full year ended 30 June 2017 and retained earnings on the fully-paid ordinary shares:		
▪ fully-franked final dividend of 0.75 cents (FY16: nil) per share	**2,953**	-
The Company's Dividend Reinvestment Plan (DRP) was applied to the final dividend.		

1 Homeloans Limited made a final dividend payment to existing Homeloans shareholders at the date of the merger. This was contingent on the merger completing and the outstanding share rights vesting. RESIMAC shareholders who were issued Homeloans shares as a result of the merger were not eligible to receive the final dividend as they were not registered as Homeloans shareholders as at the record date for the dividend.

Principal Activities

The Group is a residential mortgage lender and multi-channel distribution business specialising in Prime and Specialist lending. The Group operates in targeted market segments and asset classes in Australia and New Zealand.

As a non-bank mortgage financial institution, the Group has developed a strong lending, loan servicing and funding platform through a combination of organic growth and targeted acquisitions across Australia and New Zealand.

The Group offers a broad range of residential mortgage lending products, underpinned by a comprehensive risk-based pricing methodology.

The Group's business model provides a diversified base of revenue generated at multiple points across the customer relationship and includes loan origination, lending, and mortgage management.

The Group's Core Capabilities include:

- **Product manufacturing:** Expertise in residential mortgages gives the Group flexibility in providing a range of products with attractive risk-return profiles in Australia and in New Zealand. The Group is able to apply its detailed knowledge of borrowers to develop new products that address unmet demand;
- **Distribution:** Distributing loans in Australia through relationships with accredited brokers and white-label partners, in addition to a direct-to-customer consumer channel;
- **Treasury and funding expertise:** Strong long-term relationships with global funding partners and is a trusted issuer in the term securitisation markets;
- **Mortgage management:** Servicing borrowers needs through call centres and online;
- **Risk management:** Operating with a holistic risk management and governance framework; and
- **Collections management:** Specialised collections processes based on expertise, analytical capabilities and a solution-based approach to customer management.

The Group is able to apply its detailed knowledge of borrowers to develop new products that address unmet demand.

Debt Funding

The Group maintains access to a diversified funding platform supported by established funding relationships and a Board approved funding policy.

The following funding channels are used to support the Group's lending activities:

- **Corporate debt facilities:** Utilised for investment in business growth;
- **Warehouse facilities:** Third-party funders provide limited-recourse financing to special purpose vehicles established by the Group to originate or acquire loans. Loans funded through this channel are referred to as principally funded;
- **Term securitisations:** Loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to a new funding vehicle that issues limited-recourse asset-backed securities to public market investors; and
- **Wholesale funding partners:** Provide white-label arrangements with the Company receiving an upfront commission and on-going management trail for servicing these customers. Loans funded through this channel are referred to as non-principally funded and do not sit on the Group's balance sheet.

Principal Risks

The Group's key risks include, but are not limited to:

- **Funding risk:** The funding platform currently comprises a mix of warehouse facilities, term securitisations, corporate debt. The Group depends on these sources to fund mortgage originations and therefore faces funding risks which could lead to the inability to access funding on less favourable terms;
- **Capital and liquidity requirements:** there is a risk that the Group could be required to contribute additional 'first loss' equity capital to support the credit position of senior ranking note holders in the warehouse facilities and term securitisations which could impact the Group's profitability, ability to grow and/or could force it to raise additional capital;
- **Regulatory and licence compliance:** Subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in laws or regulations in a market in which the Group operates could materially impact the business. The Group is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could have a material adverse effect on the Group's business, operating and financial performance; and
- **Downturn in the global economy:** A material downturn in Australia and New Zealand, a sustained outbreak of higher inflation or shocks to the financial system or a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt (credit risk).

Business Strategy

The Group is focused on a number of growth strategies to continue to drive revenue and profitability over coming years:

1. ORGANIC LENDING GROWTH

Australia and New Zealand: The Group is well-positioned to continue to build upon strong volume growth, driven by:

- Expected underlying market growth in the specialist and prime segments of the residential mortgages market;
- Continuing development of all distribution channels and further investment in the Group's brand positioning;
- Pursuing direct opportunities in Australia and New Zealand; and
- Capitalise on the Group's unique position as a non-bank lender with customers seeing the Group as an alternative to major lenders.

2. GROWTH THROUGH ACQUISITION

- Management has demonstrated a strong track-record in identifying and executing acquisitions in targeted markets that are consistent with the Group's strategy to deliver value outcomes and create platforms that can be used for future growth;
- The Group expects that it will be able to capitalise on certain opportunities locally stemming from regulatory change and capital markets volatility and is focused on executing these opportunities in a disciplined and structured manner through the use of a dedicated internal mergers and acquisitions team; and
- The Group will continue to explore opportunities for further transaction collaborations and market specific partnership/joint venture style arrangements (where appropriate).

Review of Operations

The Group generated a net profit after tax (NPAT) of $15,779,912 for the year ended 30 June 2017. To reflect the Group's normalised earnings the NPAT has been adjusted to separate the transaction and restructure costs of the merger and one off items which are included in the result for the twelve months to 30 June 2017.

The following table reconciles the unaudited normalised earnings to the reported profit before tax for the period in accordance with International Financial Reporting Standards (IFRS).

Management believe the disclosure of the normalised NPAT provides additional insight into the underlying performance for the period.

Unaudited non-IFRS information	FY17 $'000
Statutory NPAT	**15,780**
Acquisition and restructure costs	**4,294**
Tax effect and other merger related tax adjustments	**(326)**
Profit on sale of investment	**(1,080)**
Normalised NPAT	**18,668**

Total revenues and other income of $315,278,517 were 25% up on prior year.

Net interest income increased by 19% to $82,541,676.

Operating expenses increased 28% but include $4,294,318 of merger transaction and restructure costs. After allowing for these, operating expenses increased by 20%, representing a combination of the impact of the merger and growth in the cost base in line with settlements growth.

Loan impairment expense reduced by 38% to $1,334,269.

Total mortgage settlement flows across the Group's combined distribution channels (i.e. both principally funded and non-principally funded) was $3.6 billion up 20% on the previous corresponding period (PCP).

- Settlements of principally funded lending of $2.6 billion were up 24% on the PCP; and
- Settlements of non-principally funded was $1.0 billion up 11% on the PCP;

The highlights of the Group's financial position and the assets under management at 30 June 2017 include:

- Principally funded loans and advances to customers increased 20% on the PCP to $6.6 billion;
- Non-principally funded portfolio was $3.6 billion, up 3% on the PCP.

Combined these make up the total Assets under Management portfolio of $10.2 billion; and in addition

- Homeloans Third Party Broker book was $4.0 billion.

The Group's net assets increased by 72% from FY16, which is largely attributable to the addition of Homeloans assets effective from 13 October 2016.

Merger Integration Update

The merger integration is progressing to plan. As outlined in the Notice of Extraordinary General Meeting and the Scheme Booklet, synergies are tracking ahead of expectations at greater than $6 million per annum run rate.

A number of operational milestones were achieved in the period including rationalisation of key premises and finalisation of the merged group organisation structure and key management appointments. Work is continuing on brand positioning, and development of revenue synergy opportunities across the Group's distribution platforms continue to be realised.

Funding Programmes

The Premier 2016-2 transaction was settled on 8 December 2016 and is a domestic prime issue with a total issuance size of $AUD 500 million. This was the first post-merger Residential Mortgage Backed Securities transaction.

Premier 2017-1, a US Rule 144a borrowing, $1 billion AUD equivalent prime issuance was settled on 13 April 2017.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company as named above, the Company Secretary, Mr Peter Fitzpatrick and all executive officers of the Company against a liability incurred as such a Director, Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Subsequent Events

FINAL DIVIDEND DECLARED

The Board of Homeloans Limited declared a fully-franked final dividend of $0.0075 per share. The Record Date is 20 September 2017. The payment date will be 5 October 2017. The dividend has not been provided for in this financial report.

PAYWISE SHARE PURCHASE

Subsequent to balance sheet date, Homeloans completed the purchase of the minority shareholdings of 12% of the fully paid ordinary shares in Paywise Pty Limited (Paywise) on 4 September 2017. This will result in Paywise becoming a wholly owned subsidiary. The transaction has not been reflected in the 30 June 2017 accounts.

SHARE OPTIONS GRANTED

Subsequent to balance sheet date, an aggregate of 1,800,000 share options were granted on the 18 August 2017 to the following senior management:

	Number of options granted	Number of ordinary shares under option
Mary Ploughman	900,000	900,000
Scott McWilliam	900,000	900,000

FUNDING PROGRAMMES

Subsequent to balance sheet date, the Group had a further prime issue under the Premier programme called Premier 2017-2 which is a domestic $750 million prime issue that settled on 3 August 2017.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 27 to the financial report.

The Directors are satisfied that the provision of non-audit services during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The Directors are of the opinion that the services as disclosed in Note 27 to the financial report do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditors; and
- None of the services undermine the general principles as set out in APES *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management of decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 114 of this financial report.

Rounding off of Amounts

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Director' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

DIRECTORS' REPORT
REMUNERATION REPORT 2017

(Audited)

CONTENTS

1. Accounting and Disclosure Implications of the Merger

The Remuneration Report is prepared in accordance with the Corporations Act. Accordingly, under the terms of the merger:

- Homeloans became the legal parent of RESIMAC; and
- RESIMAC became the legal subsidiary of Homeloans

The implications of the reverse acquisition of Homeloans by RESIMAC for this Remuneration Report are that both the 30 June 2017 full year information, including key management personnel (KMP) and the 30 June 2016 comparative information reflects the Homeloans legal parent.

Refer to Note 24 for more detail.

2. Executive Summary

This Remuneration Report sets out the remuneration framework and outlines the details and outcomes of Key Management Personnel (KMPs) for Homeloans for the year ended 30 June 2017.

The Homeloans Directors are committed to a remuneration framework that is focused on driving a performance culture and aligning the remuneration practices with the Group's strategic objectives which in turn should generate shareholder value.

As a result of the merger of RESIMAC with Homeloans the remuneration framework and practices have been, and continue to be, reviewed and amended to meet changes to the business's objectives as and when they occur.

The remuneration practices and policies are created to ensure that they align to the Group's strategic objectives. Remuneration is set at levels which are market competitive and are sufficient to attract and retain talent in the KMP and senior management group.

3. Key Management Personnel

The KMP are the people who have the authority and responsibility for planning, directing, implementing and controlling the activities of the Homeloans business. The KMP are:

Name	Position	Term as KMP
Mary Ploughman	Joint Chief Executive Officer (Joint CEO)	Since October 2016
Scott McWilliam	Joint Chief Executive Officer (Joint CEO)	Full Term
Ian Parkes	Chief Financial Officer (CFO)	Full Term
Ray Hair	General Manager, Sales	Ceased October 2016

The Non-Executive Directors that are also classed as KMPs and are required to be disclosed as part of this report are:

Name	Position	Term as KMP
Robert Scott	Independent Non-Executive Chairman	Full Term
Chum Darvall	Independent Non-Executive Deputy Chairman	Since April 2017
Michael Jefferies	Independent Non-Executive Director	Since October 2016
Robert Salmon	Independent Non-Executive Director	Full Term
Susan Hansen	Independent Non-Executive Director	Since October 2016
Warren McLeland [1]	Non-Executive Director	Since October 2016

1 Mr Duncan Saville is an Alternate director to Warren McLeland (appointed 2 February 2017)

4. KMP Remuneration

The total remuneration package of the KMP, being the Joint CEO's and CFO only, comprise a fixed component and an at risk component.

The remuneration is based on the:

- role in which they are performing (i.e. responsibility, skill and experience required); and
- market benchmark.

The KMP's remuneration arrangements are as follows:

4.1. FIXED BASE PACKAGE

The fixed component includes superannuation and is known as Total Fixed Remuneration (TFR). This amount is subject to an annual review.

4.2. SHORT-TERM INCENTIVE (STI)

The STI is assessed at the end of each performance period (i.e. 1 July to 30 June). This assessment is against predetermined Key Performance Indicators (KPIs) set by the Remuneration and Nomination Committee.

KPIs include:

- Strategic;
- Financial;
- Customer;
- People; and
- Risk and compliance components.

The STI awarded for the 30 June 2017 year will be paid 100% in cash.

In determining the STI payable to the KMPs this year, the Remuneration and Nomination Committee undertook a review of each person's performance for the FY17 performance period in July 2017. The key performance indicators that were assessed included financial objectives such as:

- NPAT; and
- Growth and cost synergies achieved.

4.3. LONG-TERM INCENTIVE (LTI)

The LTI is an equity arrangement of either options or performance shares and an allocation is considered each year. The aim of the LTI is both:

- Retention; and
- To align to long term company performance.

5. Outcomes

5.1. OVERVIEW OF COMPANY PERFORMANCE

The table below summarises details of Homeloans performance for key financial measures over the past five financial years. The comparative years FY13-FY16 are shown for the pre-merger Homeloans Limited results and not RESIMAC or the merged entity.

	HOM Merged	Homeloans Pre-Acquisition			
Financial year ended 30 June	FY17	FY16	FY15	FY14	FY13
NPAT ($'000)	**15,780**	5,253	5,608	6,205	7,736
Total dividends per share (cents)	**2.75**	4.0	4.0	5.0	6.0
Dividend payout ratio (%)	**62.6**	80.5	75.0	85.5	82.7
Closing share price (cents as at 30 June)	**43.0**	44.0	58.0	75.0	94.5
Basic earnings per share (cents)	**4.39**	4.96	5.33	5.84	7.26
Return on equity (%)	**11.2**	11.9	13.3	14.7	17.9
Return on assets (%) [1]	**2.3**	1.8	2.0	2.1	2.3

1 As a result of the requirement under AASB 10 – Consolidated Financial Statements, the parent company exercises control over the SPVs and securitisation trusts, and therefore significant assets have been added to the consolidated Balance Sheet without any appreciable increase in net profit.

2 In October 2016, the Board of Homeloans Limited paid a final dividend of 2.0 cents per share on the completion of the RESIMAC transaction.

6. Statutory Remuneration

The table set out below provides a summary of the actual remuneration awarded to KMP in respect of the full year ended 30 June 2017.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments[2]	Total		
	Salary ($)	STI awarded ($)	Non-monetary benefits ($)	Super-annuation ($)	Leave[1] ($)	($)	($)	Percentage performance related[3] (%)	Percentage rights related (%)
JOINT CEOs									
Mary Ploughman (from 25 October 2016) [4]									
FY17	**268,317**	**232,140**	**16,667**	**23,333**	**4,433**	**-**	**544,890**	**42.6**	**-**
FY16	-	-	-	-	-	-	-	-	-
Scott McWilliam									
FY17	**426,881**	**232,140**	**548**	**35,000**	**25,347**	**114,807**	**834,723**	**27.8**	**13.8**
FY16	350,000	150,000	-	43,224	5,695	120,967	669,886	40.5	18.1

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments[2]	Total		
	Salary ($)	STI awarded ($)	Non-monetary benefits ($)	Super-annuation ($)	Leave[1] ($)	($)	($)	Percentage performance related[3] (%)	Percentage rights related (%)
GROUP EXECUTIVES									
Ian Parkes									
FY17	**282,220**	**100,000**	**4,479**	**30,000**	**9,780**	**20,264**	**446,743**	**22.4**	**4.5**
FY16	240,000	70,000	-	27,074	3,905	33,792	374,771	27.1	9.0
Ray Hair (ceased as KMP on 25 October 2016)									
FY17	**80,137**	**-**	**-**	**7,613**	**620**	**16,183**	**104,553**	**-**	**15.5**
FY16	250,000	60,000	-	28,025	4,068	24,993	367,086	23.2	6.8
TOTAL									
FY17	**1,057,555**	**564,280**	**21,694**	**95,946**	**40,180**	**151,254**	**1,930,910**		
FY16	840,000	280,000	-	98,323	13,668	179,752	1,411,743		

1 Long-term benefits relate to long service leave accrued during the year.
2 The expensing of the 2014-2016 LTI and 2015 STI rights up until the merger in October 2016. The outstanding share rights at October 2016 vested and the outstanding expense accelerated as a result of the completion of the merger between Homeloans and RESIMAC on 13 October 2016.
3 The percentage performance related column is the sum of the STI and share-based payments divided by the total remuneration, reflecting the actual percentage of remuneration at risk for the year.
4 Represents salary from 25 October 2016 and not total annual salary. Percentage performance related is based on annual STI awarded.

7. Long-term and Short-term Incentive Plans

7.1. 2017 LTI PLAN

No LTI was provided with respect to the full year ended 30 June 2017.

7.2. 2018 LTI PLAN

The Joint CEOs have both been offered a LTI for the 2018 year as per the following terms and conditions:

- Each will receive 900,000 Options pursuant to the Homeloans Employee Share Option and Rights Plan;
- The grant date is 18 August 2017;
- The exercise price is $0.55 per option;
- These options will vest in equal tranches of 300,000 on each anniversary of the Grant Date;
- The exercise period is 3 years for each tranche vesting; and
- The vesting condition is 100% tenure.

7.3. 2017 STI PLAN

Each KMP has a contractual STI where they have an opportunity to earn up to a percentage of their TFR.

In the case of the two Joint CEOs they can earn up to 50% of their TFR and the CFO can earn up to 40% of his TFR.

KPIs will be set at the commencement of the performance period and will be assessed by the Remuneration and Nomination Committee at the end of each performance period.

8. Summary of Awards Held under Homeloans Share Rights

The table below sets out details of the movement for the share rights granted and vested during the year:

KMP	Held at 1 July 2016 [1]	**Granted during year**	**Rights vested during the year [2]**	**Held at 30 June 2017**
Mary Ploughman	-	**-**	**-**	**-**
Scott McWilliam	993,493	**-**	**(993,493)**	**-**
Ian Parkes	322,388	**-**	**(322,388)**	**-**
Ray Hair	263,955	**-**	**(263,955)**	**-**
Total rights held	1,579,836	-	(1,579,836)	-

1 Reflects prior year's grants which were subject to performance conditions at that time which remain unvested (i.e. performance rights for the 2014, 2015, 2016 financial years, tenure rights for the 2015 financial year and STI for the 2016 financial years).
2 Reflects the vesting of the outstanding share rights that was accelerated as a result of the completion of the merger between Homeloans and RESIMAC on 13 October 2016. Rights that vested during the year were subject to Escrow until 31 August 2017.

9. Non-Executive Director Remuneration

9.1. OVERVIEW OF NON-EXECUTIVE DIRECTORS' REMUNERATION ARRANGEMENTS

9.1.1. Policy Objectives

- **To be market competitive:** aim to set directors' fees that are competitive with non-executive directors in comparative companies;
- **To ensure complementary skills:** aim to ensure that the mix of directors at any one time are diverse and adequate to carry out the objectives of the business; and
- **To safeguard independence:** to exclude any performance related element in order to preserve the independence of the non-executive directors.

9.1.2. Aggregate Fees Approved by Shareholders

At the Annual General Meeting (AGM) of shareholders held on 25 November 2016, the shareholders approved the maximum aggregate fee pool per annum for non-executives of $550,000. This amount is the current pool and the Board are not intending to increase this pool at this year's AGM.

9.1.3. Regular Review of Directors' Fees

The Board reviews the level of Directors' fees annually to ensure the fees are in line with market and are suitable for the level of skill and expertise required to carry out the duties of directors in a listed environment with an Australian Financial Services Licence and an Australian Credit Licence.

With the merging of the companies the Board undertook a review in January 2017, and the changes took effect from February 2017.

The agreed fee structure is that a fee is paid to reflect the Chairman's responsibilities, as it is for the Deputy Chairman. Each director receives a base fee and if a director chairs a Board committee, an additional fee is applied.

The 2017 fee levels were as follows:

Name	Position	Maximum Fee
Robert Scott	Chairman	$100,000
Chum Darvall	Deputy Chairman	$80,000
Michael Jefferies	Remuneration and Nomination Chair	$75,000
Robert Salmon	Non-Executive Director	$70,000
Susan Hansen	Audit Chair & NZ Chair	$105,000
Warren McLeland	Risk & Compliance Chair	$75,000

9.1.4. Board Skills and Performance Review

The Board undertakes from time to time a review of the skills that each holds and this is then summarised in a skills matrix. In addition, the Board carries out an assessment of the performance of the Board as a whole and of each committee. The next review will be undertaken in November 2017. These assessments are conducted in-house however if any Board member wishes to have an independent review the appropriate consultant will be appointed.

9.1.5. Non-executive Director Remuneration

The fees paid or payable to the non-executive directors in relation to the 2017 financial year are set out below:

Non-Executive Directors	Fees $	Superannuation $	Total $
Robert Scott, Chairman			
FY17	**89,583**	**-**	**89,583**
FY16	75,000	-	75,000
Chum Darvall, Deputy Chairman [1]			
FY17	**20,000**	**-**	**20,000**
FY16	-	-	-
Robert Salmon			
FY17	**63,613**	**6,043**	**69,656**
FY16	50,000	-	50,000
Warren McLeland			
FY17	**36,416**	**8,750**	**45,166**
FY16	-	-	-
Duncan Saville [2]			
FY17	**-**	**-**	**-**
FY16	-	-	-
Susan Hansen [3]			
FY17	**74,954**	**7,121**	**82,075**
FY16	-	-	-
Michael Jefferies [4]			
FY17	**55,822**	**5,303**	**61,125**
FY16	-	-	-
Former Non-Executive Directors			
Michael Starkey (retired 25 October 2016) [5]			
FY17	**-**	**-**	**-**
FY16	-	-	-
Total Remuneration			
FY17	**340,388**	**27,217**	**367,605**
FY16	125,000	-	125,000

1 Chum Darvall was appointed as Deputy Chairman on 5 April 2017.
2 Duncan Saville, alternate to Warren McLeland is not paid any fees.
3 Susan Hansen was appointed as a non-executive director on 25 October 2016.
4 Michael Jefferies was appointed as a non-executive director on 25 October 2016.
5 Acting as a director in connection with discharging his duties as an executive of National Australia Bank and consequently does not take fees for his services.

10. Other Remuneration Information

10.1. REMUNERATION GOVERNANCE

10.1.1. Remuneration Governance and Responsibility

The Homeloans Board of Directors has the responsibility for setting and overseeing the Company's remuneration policies, practices and structure. The Board considers recommendations made by the Remuneration and Nomination Committee.

The remuneration framework and matters considered by the Remuneration and Nomination Committee and the Board include:

- Review Board size and composition (mix of skills, experience and other competencies);
- Identifying and recommending candidates to the Board for nomination as members of the Board or its Committees;
- Developing and implementing a process for orientation of new directors;
- Reviewing and approving company goals and appropriate superior key performance indicators/objectives relevant to the CEOs and KMP annual short term incentive arrangement and evaluate KMPs performance in light of those objectives;
- Reviewing and approving the remuneration of KMPs, Directors and senior management (including total fixed remuneration, short term incentives and long term incentives);
- Approving recruitment practices; and
- Succession planning.

10.1.2. Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee. This Committee has a formal charter. This charter is available on the Company's website **www.homeloans.com.au**.

The Remuneration and Nomination Committee members are:

- Michael Jefferies - Chair; and
- Susan Hansen, Chum Darvall, Warren McLeland and Robert Salmon as members.

The Remuneration and Nomination Committee reviews and makes recommendations to the Board on:

- Remuneration governance;
- Policies;
- Practices; and
- Structure.

which will apply to the KMP, senior management and the non-executive directors. The Remuneration and Nomination Committee receives regular reports and reviews from Human Resources.

10.1.3. Services from Remuneration Consultants

The Remuneration and Nomination Committee may request advice from independent external consultants where appropriate. These consultants will be engaged directly by the Remuneration and Nomination Committee. The Company did not engage any remuneration consultants during the year.

10.1.4. KMP Share Ownership

The table below sets out the number of shares held directly, indirectly or beneficially by KMP (including their related parties):

Non-Executive Directors **Name**	Held at 1 July 2016	Vested / exercised rights	Net change	**Held at 30 June 2017**
Robert Scott	2,156,116	-	-	**2,156,116**
Robert Salmon	10,977,449	-	(350,000)	**10,627,449**
Chum Darvall	-	-	1,175,000	**1,175,000**
Warren McLeland	-	-	11,440,055	**11,440,055**
Duncan Saville	-	-	231,922,076	**231,922,076**
Susan Hansen	-	-	100,000	**100,000**
Michael Jefferies	-	-	648,564	**648,564**
	13,133,565	**-**	**244,935,695**	**258,069,260**
Senior Executives				
Mary Ploughman	-	-	63,194	**63,194**
Scott McWilliam [1]	266,888	993,493	-	**1,260,381**
Ian Parkes [2]	75,355	322,388	-	**397,743**
	342,243	**1,315,881**	**63,194**	**1,721,318**
	13,475,808	1,315,881	244,998,889	**259,790,578**

1 Shares held at 30 June 2017 were subject to Escrow until 31 August 2017 (993,493 shares).
2 Shares held at 30 June 2017 were subject to Escrow until 31 August 2017 (322,388 shares).

10.1.5. Share Trading Restrictions

Homeloans securities trading policy reflects the Corporations Act prohibition on KMP and their closely related parties entering into any arrangement that would have the effect of limiting the key management personnel's exposure to risk relating to an element of their remuneration that remains subject to restrictions on disposal.

Homeloans directors, the Homeloans Management Team, and certain members of their immediate family and controlled entities are also required to obtain consent and clearance in writing for security trading during prohibited periods from the Chairman.

The policy is available on the Corporate Governance section of the company's website at **www.homeloans.com.au**. Breaches of the policy are subject to disciplinary action, which may include termination of employment.

10.1.6. Further Information on Remuneration

10.1.6.1. Service Agreements

Each KMP has entered into an employment contract with the Company. These contracts have unlimited duration however may be terminated with relevant notice.

All key management personnel are entitled to receive payment in lieu of notice of any accrued statutory entitlement (i.e. annual and long service leave) on cessation of their employment.

Set out below are the notice periods for each KMP:

Name	Notice Period / Termination Payment
Mary Ploughman	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct
Scott McWilliam	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct
Ian Parkes	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct

10.1.6.2. Other Transactions and Balances with Key Management Personnel

From time to time, directors of the Company or its controlled entities, or their director-related entities, may purchase goods or services from the group. These purchases are on the same terms and conditions as those entered into by other group employees or customers and are trivial or domestic in nature.

End of remuneration report.

This directors' report, including the remuneration report, is signed in accordance with a resolution of the Directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the Directors of Homeloans Limited

Robert Scott
Chairman and Non-Executive Director

Sydney,
28 September 2017

FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017

	Note	FY17 $'000	FY16 $'000
Interest income	1	**278,830**	241,158
Interest expense	2	**(196,288)**	(171,771)
Net interest income		**82,542**	69,387
Fee and commission income	1	**32,084**	9,276
Fee and commission expense	2	**(31,096)**	(13,847)
Other income	1	**4,365**	1,530
Employee benefits expense	2	**(36,677)**	(28,293)
Other expense	2	**(26,862)**	(20,139)
Loan impairment expense	2	**(1,334)**	(2,153)
Share of profit from joint ventures	1	**-**	742
Profit before tax		**23,022**	16,503
Income tax expense	3	**(7,242)**	(3,455)
PROFIT AFTER TAX		**15,780**	13,048
Attributable to:			
Owners of the parent		**15,768**	13,041
Non-controlling interest		**12**	7
		15,780	13,048

	Note	**FY17 $'000**	FY16 $'000
PROFIT AFTER TAX		**15,780**	13,048
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
Reversal of prior year reserve on trust wind up		**(22)**	(615)
Items that may be reclassified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		**(4,330)**	(799)
Tax effect		**1,304**	187
Currency translation differences		**(146)**	712
Other comprehensive income for the period, net of tax		**(3,194)**	(515)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**12,586**	12,533
Attributable to:			
Owners of the parent		**12,574**	12,526
Non-controlling interest		**12**	7
		12,586	12,533

		FY17 cents per share	FY16 cents per share
Earnings per share			
Basic	19	**4.39**	4.57
Diluted	19	**4.39**	4.57

Refer to Note 24 for the impact of the merger on the consolidated financial statements.

Notes to the consolidated financial statements are included on pages 41 to 112.

Consolidated Statement of Financial Position
as at 30 June 2017

	Note	FY17 $'000	FY16 $'000
ASSETS			
Cash and cash equivalents	4	**187,109**	161,494
Trade and other receivables	5	**7,674**	3,082
Current tax receivable	3	**105**	-
Loans and advances	6	**6,642,988**	5,245,317
Other financial assets	7	**62,449**	443
Derivative financial asset	20	**7,297**	45,998
Other assets	9	**3,503**	5,080
Plant and equipment	8	**1,351**	930
Deferred tax assets	3	**-**	4,828
Investments in joint ventures	23	**-**	1,173
Intangible assets	10	**22,296**	1,331
		6,934,772	5,469,676
LIABILITIES			
Trade and other payables	11	**38,345**	23,062
Current tax payable	3	**-**	2,022
Provisions	15	**5,144**	3,528
Interest-bearing liabilities	12	**6,708,755**	5,349,193
Other financial liabilities	13	**28,328**	-
Derivative financial liabilities	20	**4,384**	5,214
Other liabilities	14	**2,792**	4,321
Deferred tax liabilities	3	**5,716**	-
Lease incentives		**100**	-
		6,793,564	5,387,340
NET ASSETS		**141,208**	82,336
EQUITY			
Share capital		**174,762**	134,157
Reverse acquisition reserve		**(61,541)**	(70,189)
Total issued capital	18	**113,221**	63,968
General reserves	18	**(3,158)**	42
Retained earnings	18	**31,136**	18,329
Equity attributable to owners of the parent		**141,199**	82,339
Non-controlling interest	18	**9**	(3)
		141,208	82,336

Refer to Note 24 for the impact of the merger on the consolidated financial statements.

Notes to the consolidated financial statements are included on pages 41 to 112.

Consolidated Statement of Changes in Equity
for the year ended 30 June 2017

	Share capital $'000	Reverse acquisition reserve [1] $'000	Total issued capital $'000	Reserves [2] $'000	Retained earnings $'000	Attributable to owners of the parent $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015	134,157	(70,189)	63,968	(410)	6,255	69,813	(10)	69,803
Profit after tax	-	-	-	-	13,041	13,041	7	13,048
Other comprehensive income, net of income tax	-	-	-	452	(967)	(515)	-	(515)
Total comprehensive income for the period	-	-	-	452	12,074	12,526	7	12,533
Balance at 30 June 2016	134,157	(70,189)	63,968	42	18,329	82,339	(3)	82,336
Balance at 1 July 2016	**134,157**	**(70,189)**	**63,968**	**42**	**18,329**	**82,339**	**(3)**	**82,336**
Profit after tax	**-**	**-**	**-**	**-**	**15,768**	**15,768**	**12**	**15,780**
Other comprehensive income, net of income tax	**-**	**-**	**-**	**(3,200)**	**6**	**(3,194)**	**-**	**(3,194)**
Total comprehensive income for the period	**-**	**-**	**-**	**(3,200)**	**15,774**	**12,574**	**12**	**12,586**
Fair value of consideration on acquisition of Homeloans Limited	**40,605**	**8,648**	**49,253**	**-**	**-**	**49,253**	**-**	**49,253**
Payment of dividends	**-**	**-**	**-**	**-**	**(2,967)**	**(2,967)**	**-**	**(2,967)**
Balance at 30 June 2017	**174,762**	**(61,541)**	**113,221**	**(3,158)**	**31,136**	**141,199**	**9**	**141,208**

1 As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This account called 'Reverse acquisition reserve' is similar in nature to share capital. The Reverse acquisition reserve is not available for distribution. This equity account represents a net adjustment for the replacement of the legal parent's (Homeloans) equity with that of the deemed acquirer (RESIMAC).

2 Comprises cash flow hedge reserve and foreign currency translation reserve. Refer to Note 18.2 for more detail.

Refer to Note 24 for the impact of the merger on the consolidated financial statements.

Notes to the consolidated financial statements are included on pages 41 to 112.

Consolidated Statement of Cash Flows
for the year ended 30 June 2017

	Note	FY17 $'000	FY16 $'000
Cash flows from operating activities			
Interest received		**292,965**	254,805
Interest paid		**(189,023)**	(166,930)
Receipts from loan fees and other income		**44,976**	16,414
Payments to suppliers and employees		**(117,860)**	(71,357)
Payments of net loans to borrowers		**(1,230,045)**	(778,692)
Income tax paid		**(7,491)**	(4,378)
Net cash flows used in operating activities	4	**(1,206,478)**	(750,138)
Cash flows from investing activities			
Proceeds from sale of investment securities		**-**	2,047
Payment for plant and equipment		**(402)**	(1,068)
Repayment of loans from /(to) related parties		**11,820**	(3,090)
Cash acquired on acquisition of business		**10,345**	-
Proceeds from sale of share in joint ventures		**2,253**	-
Net cash provided by/(used in) investing activities		**24,016**	(2,111)
Cash flows from financing activities			
Proceeds from borrowings		**20,016,927**	10,987,964
Repayment of borrowings		**(18,803,223)**	(10,255,731)
Swap payments		**(1,089)**	(1,273)
Payment of dividends		**(5,118)**	-
Net cash provided by financing activities		**1,207,497**	730,960
Net increase/(decrease) in cash and cash equivalents		**25,035**	(21,289)
Cash and cash equivalents at the beginning of the year		**161,494**	181,844
Effects of exchange rate changes on cash balances held in foreign currencies		**580**	939
Cash and cash equivalents at the end of the period	4	**187,109**	161,494

Refer to Note 24 for the impact of the merger on the consolidated financial statements.

Notes to the consolidated financial statements are included on pages 41 to 112.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ ABOUT THIS REPORT

for the year ended 30 June 2017

Homeloans Limited (referred to as 'Homeloans') is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of Homeloans and its entities that it controls (referred to as 'the Group') are described in the segment information.

The consolidated general purpose financial report of the Group for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 28 September 2017. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (AAS) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a historical cost basis, except for investments held by associates and certain financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are the hedged items in fair value hedge relationships, which are otherwise carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation. See Note 30 for more detail;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the Group and effective for reporting periods beginning on or before 1 July 2017. Refer to Note 30 for further details; and
- equity accounts for associates listed at Note 23.

Key Judgments and Estimates

In the application of the Group's accounting policies, the Directors are required to make judgments, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments. Actual results may differ from these estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ ABOUT THIS REPORT

for the year ended 30 June 2017

Judgments and estimates which are material to the financial report are found in the following notes:

Note	Relates to
3	Recognition of deferred tax assets and liabilities
6	Impairment and provisioning
7 & 13	NPV of future trail commission: recognition of future commissions receivable and payable
10	Goodwill impairment
24	Business acquisition accounting

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group. A list of controlled entities (subsidiaries) at year end is contained in Note 22.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed.

The Group controls an investee if and only if the Group has:

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

Refer to Note 22 for detail on the consolidation of Special Purpose Vehicles (SPV).

REVERSE ACQUISITION ACCOUNTING

The merger of Homeloans and RESIMAC has been accounted for as a reverse acquisition business combination. In applying the requirements of AASB 3 *Business Combinations* to the Group:

- Homeloans is the legal parent entity to the Group; and
- RESIMAC, which is neither the legal parent nor legal acquirer, is deemed to be the accounting parent of the Group.

The consolidated financial information incorporates the assets and liabilities of all entities deemed to be acquired by RESIMAC including Homeloans and the results of these entities for the period from which those entities are accounted for as being acquired by RESIMAC.

The assets and liabilities of Homeloans acquired by RESIMAC were recorded at fair value while the assets and liabilities of RESIMAC were maintained at their book value.

The impact of all transactions between entities in the Group are eliminated in full.

The impact on equity of treating the formation of the Group as a reverse acquisition is discussed in more detail in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ ABOUT THIS REPORT

for the year ended 30 June 2017

Foreign Currency

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into Australian dollars at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the application of these procedures are taken to the income statement, with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, which are taken directly to equity until the disposal of the net investment and are then recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Other Accounting Policies

Significant and other accounting policies that summarise the measurement basis used are relevant to an understanding of the financial statements and are provided throughout the notes to the financial statements.

The Notes to the Financial Statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, acquisitions and impairment write-downs; or
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

Key numbers: provides a breakdown of individual line items in the financial statements that the Directors consider most relevant and summarises the accounting policies, judgments and estimates relevant to understanding these line items;

Capital: provides information about the capital management practices of the Group and shareholder returns for the year;

Risk: discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks;

Group structure: explains aspects of the Group structure and how changes have affected the financial position and performance of the Group;

Unrecognised items: provides information about items that are not recognised in the financial statements but could potentially have an impact on the Group's financial position and performance; and

Other: provides information on items which require disclosure to comply with AAS and other regulatory pronouncements however, are not considered critical in understanding the financial performance or position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ SEGMENT INFORMATION

for the year ended 30 June 2017

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board and executive management team (the chief operating decision makers (CODM)) in order to allocate resources to the segment and to assess its performance.

The Group has identified three reportable segments based on the nature of the products and services provided, the type of customers for those products and services, the geographies where the business operates and the existence of discrete and separate reporting and management teams. The following summary describes the operations in each of the Group's reportable segments.

Even though the joint CEO's have discrete responsibility for functional departments and areas, they jointly manage the business based on the segments as described below. This is consistent with the Board reporting and management reporting currently in place.

The Group's reportable segments under AASB 8 are therefore as follows:

1. Australian Lending Business

This represents the distribution and lending business currently captured under the following primary brands:

- Homeloans;
- RESIMAC; and
- State Custodians

The segment contains the bulk of the Australian based income and expense from the Australian Lending business. It incorporates the new business settled through the various distribution channels and the margin net of funding costs of the principally funded loan portfolios and the upfront and trail commission on the non-principally funded loan portfolio.

2. New Zealand Lending Business

Whilst the nature of the customers and products are similar to the Australian Lending segment, given the different jurisdiction and market conditions, management believe it is appropriate to distinguish the result of New Zealand from Australia. The support for this as a separate segment include a separate board and management reporting; separate regulatory requirements / oversight; and staff who are solely accountable for the NZ business.

Under AASB 8, this segment cannot be aggregated with the Paywise segment as the aggregation criteria are not met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ SEGMENT INFORMATION

for the year ended 30 June 2017

3. Paywise Business

This segment represents the remaining business outside of the Australian Lending Business. The rationale for separating this business is it is currently managed and monitored independently from the Australian Lending business in the management reporting.

Paywise has its own CEO and Board and separate reporting. It runs relatively independently of the rest of the Australian operations and also has very different customers, sources of income and products than the other two segments.

Paywise is a salary packaging service provider which operates nationally. It provides services to employers and employees to manage salary packaging arrangements. It receives service fees and commission income.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segments:

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY 17 $'000	FY 16 $'000	**FY 17 $'000**	FY 16 $'000	**FY 17 $'000**	FY 16 $'000	**FY 17 $'000**	FY 16 $'000
Revenue from external customers	**299,013**	236,401	**12,092**	12,340	**4,174**	3,965	**315,279**	252,706
Total segment revenue	**299,013**	236,401	**12,092**	12,340	**4,174**	3,965	**315,279**	252,706
Segment results before tax, depreciation, amortisation, finance costs and impairment	**26,787**	22,656	**1,914**	57	**471**	394	**29,172**	23,107
Depreciation and amortisation	**(731)**	(759)	**(13)**	(32)	**(301)**	(388)	**(1,045)**	(1,179)
Loan impairment	**(1,241)**	(1,982)	**(92)**	(170)	**-**	-	**(1,333)**	(2,152)
Finance costs	**(3,662)**	(3,146)	**(110)**	(127)	**-**	-	**(3,772)**	(3,273)
Segment results before tax	**21,153**	(16,769)	**1,699**	(272)	**170**	6	**23,022**	16,503
Income tax expense							**(7,242)**	(3,455)
PROFIT AFTER TAX							**15,780**	13,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ SEGMENT INFORMATION

for the year ended 30 June 2017

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY 17 $'000	FY 16 $'000	**FY 17 $'000**	FY 16 $'000	**FY 17 $'000**	FY 16 $'000	**FY 17 $'000**	FY 16 $'000
Segment assets	**6,662,963**	5,267,251	**256,201**	196,659	**15,608**	5,766	**6,934,772**	5,469,676
	6,662,963	5,267,251	**256,201**	196,659	**15,608**	5,766	**6,934,772**	5,469,676
Segment liabilities	**(6,525,033)**	(5,189,885)	**(247,594)**	(189,817)	**(15,016)**	(5,616)	**(6,787,643)**	(5,385,318)
Tax liabilities	**-**	-	**-**	-	**-**	-	**(5,921)**	(2,022)
	(6,525,033)	(5,189,885)	**(247,594)**	(189,817)	**(15,016)**	(5,616)	**(6,793,564)**	(5,387,340)
NET ASSETS	**137,930**	77,366	**8,607**	6,842	**592**	150	**141,208**	82,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

1. Income

	Note	FY17 $'000	FY16 $'000
Interest			
Loans and advances		**267,900**	238,064
Bank deposits		**2,194**	3,094
Interest received - other persons / corporations		**5,615**	-
Discount unwind on net present value of trail commission		**3,121**	-
		278,830	241,158
Fee and commission			
Mortgage origination		**11,718**	488
Loan management		**11,778**	494
Salary packaging		**2,858**	2,987
Vehicle financing commission		**2,425**	2,229
Net loan fees		**3,305**	3,168
		32,084	9,276
Other		**4,365**	1,530
Share of profit from joint ventures		**-**	742
		315,279	252,706

RECOGNITION AND MEASUREMENT

Revenue arises in the course of ordinary activities of the Group and is measured at the fair value of the consideration received or receivable. It is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

1.1. INTEREST

1.1.1. Loans and Advances

Revenue arising from issuing residential loans which are funded by the warehouse facility is initially recognised at the fair value of the consideration received or receivable when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably.

Loans and advances are initially recognised at fair value. Subsequent to initial recognition, the loans are measured at amortised cost using the effective interest method over the estimated actual (but not contractual) life of the mortgage loan, taking into account all income and expenditure directly attributable to the loan.

Interest income is the key component of this revenue stream and it is recognised as it accrues using the effective interest method. The rate at which revenue is recognised is referred to as the effective interest rate and is equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan. Acquisition costs are also spread across the estimated life of the loan.

1.1.2. Bank Deposits

This comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

1.2. FEE AND COMMISSION

The Group originates loans (non-principally funded loans) and receives origination commission on the settlement of loans. Additionally the lender normally pays a trailing commission over the life of the loan.

Commission income is recognised as follows:

1.2.1. Mortgage Origination

Origination commissions are recognised upon the loans being settled and receipt of commission.

1.2.2. Loan Management

The Group receives trail commissions (only non-principally funded) from lenders on loans they have settled that were originated by the Group. The trail commissions are received over the life of the loans based on the individual loan balance outstanding. The Group also makes trail commission payments to authorised mortgage originators (brokers) based on the individual loan balance outstanding.

On initial recognition, trail commission revenue and receivables on non-principally funded loans are recognised at fair value, being the expected future trailing commission receivables discounted to their NPV. In addition, an associated payable and expense to the brokers are also recognised, initially measured at fair value being the future trailing commission payable to brokers discounted to their NPV.

Subsequent to initial recognition and measurement both the trail commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount by computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the Consolidated statement of profit or loss.

1.3. OTHER

Other income comprises:

- changes in fair value of financial assets at fair value through profit or loss;
- gain on sale of investment in joint ventures; and
- administration and service fees earned in the Paywise business which is recognised as the services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

2. Expenses

	FY17 $'000	FY16 $'000
Interest		
Bond and warehouse facilities	**186,782**	164,123
Amortisation - bond issue costs	**4,122**	3,814
Discount unwind on net present value of trail commission	**1,838**	-
Net swap payments	**1,077**	1,273
Other	**2,469**	2,561
	196,288	171,771
Fee and commission		
Mortgage origination	**9,843**	-
Loan management	**17,481**	10,574
Other financing costs	**3,772**	3,273
	31,096	13,847
Employee benefits		
Remuneration, bonuses, superannuation and on-costs	**36,677**	28,293
	36,677	28,293
Other		
Marketing, consultancy and IT	**14,888**	11,560
Occupancy-related	**3,463**	2,112
Depreciation and amortisation	**1,046**	1,179
Other	**7,465**	5,288
	26,862	20,139
Loan impairment	**1,334**	2,153
	292,257	236,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

RECOGNITION AND MEASUREMENT

2.1. INTEREST

2.1.1. Bond and Warehouse Facilities

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include:

- interest on deposits;
- coupon payments on notes issued; and
- other interest paid on non-securitised funding facilities and are recognised under the effective interest rate method. See further detail under Note 1.

2.1.1.1. Deferred Costs

Transaction costs representing mortgage insurance premiums and upfront commissions paid on principally funded loans incurred by the Group, as manager of the mortgage program, in establishing mortgage loans on the books of the SPV's are capitalised on the balance sheet of the Group.

These costs are amortised to the income statement over the period over which the Group is expected to receive excess margin distribution from the managed trusts.

The amortisation rate is such that it closely aligns with the rate of reduction of the underlying mortgage portfolio. The rate of reduction of the outstanding mortgage portfolio is calculated based on the historical behaviour of the total mortgage balances of the past 10 years. On a consolidated basis these costs are included as part of the amortised cost of the loans.

2.1.2. Amortisation - Bond Issue Costs

Transaction costs incurred by the Group, as manager of the mortgage program, in facilitating the issue of debt securities by the special purpose vehicle are capitalised on the balance sheet of the parent entity as bond issue costs. These costs are amortised to the income statement over the average expected life of the debt securities using the effective interest method.

On a consolidated basis, these costs are included as part of the amortised cost of the debt securities.

2.2. FEE AND COMMISSION

2.2.1. Mortgage Origination

Upfront commission payments for non-principally funded loans to mortgage originators, brokers and commissioned staff. This is recognised upon settlement as the services performed by the originator is principally performed upfront.

2.2.2. Loan Management

2.2.2.1. Trail Commission Paid

For non-principally funded business, trail commission payments to brokers and commissioned staff based on the loan book balance outstanding. See note 1.2.1. for more detail.

2.3. EMPLOYEE BENEFITS

Employee benefits expenses include remuneration, bonuses, superannuation, redundancies and associated on-costs as incurred.

2.4. LOAN IMPAIRMENT

Loan impairment expenses relates to the movement in the:

- specific provision;
- collective provision movements for loan impairment; and
- direct loan write-offs recognised during the year.

See note 6 for detail on impairment of loans and advances.

OTHER

This mainly comprises bank fees, insurances, travel and general administration expenses and unrecoverable costs. These items are expensed when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

3. Income Tax

3.1. INCOME TAX RECOGNISED IN PROFIT OR LOSS

	FY17 $'000	FY16 $'000
Current Tax		
In respect of the current year	**5,767**	3,939
In respect of prior years	**(904)**	(73)
Translation loss on foreign currency assets and liabilities	**(18)**	(3)
	4,845	3,863
Deferred tax		
In respect of the current year	**2,397**	(401)
In respect of prior years	**-**	(7)
	2,397	(408)
Total income tax expense recognised in the current year	**7,242**	3,455

The income tax expense for the year can be reconciled to the accounting profit as follows:

	FY17 $'000	FY16 $'000
Profit before tax	**23,022**	16,503
Income tax expense calculated at 30% (FY16: 30%)	**6,907**	4,951
Effect of expenses that are not deductible in determining taxable profit	**248**	(1,057)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5**	19
Write down of deferred tax assets	**2,162**	-
Other items	**(1,176)**	(378)
	8,146	3,535
Adjustments recognised in the current year in relation to the current tax of prior years	**(904)**	(80)
Income tax expense recognised in profit or loss	**7,242**	3,455

The tax rate used for FY17 and FY16 reconciliations above is the corporate tax rate of 30% payable by corporate entities in Australia on taxable profits under tax law in that jurisdiction.

3.2. CURRENT TAX ASSETS AND LIABILITIES

	FY17 $'000	FY16 $'000
Current tax receivable/(payable)	**105**	(2,022)
	105	(2,022)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

3.3. DEFERRED TAX BALANCES

The following is the analysis of deferred tax assets (DTA) and deferred tax liabilities (DTL) presented in the consolidated Statement of financial position:

	FY17 $'000	FY16 $'000
Deferred tax assets	**18,324**	7,937
Deferred tax liabilities	**(24,040)**	(3,109)
	(5,716)	4,828

FY17	Opening balance $'000	Current year recognised in profit or loss $'000	Recognised directly in equity $'000	Recoup tax loss against liability $'000	Additional amounts recognised from business combination $'000	Closing Balance $'000
DTA in relation to:						
Doubtful debts	276	**(66)**	**-**	**-**	**108**	**318**
Plant, equipment and software	768	**182**	**-**	**-**	**-**	**950**
Deferred mortgage insurance	557	**(55)**	**-**	**-**	**12**	**514**
Employee entitlements	973	**(278)**	**-**	**-**	**425**	**1,120**
Net provision for lease make good	45	**15**	**-**	**-**	**-**	**60**
Other accrued expenses	716	**245**	**-**	**-**	**1,629**	**2,590**
Blackhole expenditure	490	**442**	**-**	**-**	**57**	**989**
Tax losses carried forward	4,112	**(2,160)**	**(3)**	**(183)**	**-**	**1,766**
Trail commission payable	-	**1,232**	**-**	**-**	**8,751**	**9,983**
Derivatives	-	**(6)**	**-**	**-**	**10**	**4**
Lease incentives	-	**(0)**	**-**	**-**	**30**	**30**
	7,937	**(449)**	**(3)**	**(183)**	**11,022**	**18,324**
DTL in relation to:						
Right to future management fees	4,020	**2,426**	**-**	**-**	**-**	**6,446**
Loans and advances	(1,444)	**(948)**	**-**	**-**	**80**	**(2,312)**
Deferred bond issue cost	1,417	**344**	**-**	**-**	**-**	**1,761**
Derivatives	(884)	**156**	**(1,304)**	**-**	**-**	**(2,032)**
Trail commission receivable	-	**(118)**	**-**	**-**	**20,087**	**19,969**
Accrued income and other	-	**88**	**-**	**-**	**120**	**208**
	3,109	**1,948**	**(1,304)**	**-**	**20,287**	**24,040**
	4,828	**(2,397)**	**1,301**	**(183)**	**(9,265)**	**(5,716)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

FY16	Opening balance $'000	Current year recognised in profit or loss $'000	Prior year recognised in profit or loss $'000	Recognised directly in equity $'000	Recoup tax loss against liability $'000	Closing Balance $'000
DTA in relation to:						
Doubtful debts	519	(250)	-	7	-	276
Plant, equipment and software	84	685	-	(1)	-	768
Deferred mortgage insurance	574	(17)	-	-	-	557
Directors retirement benefit	59	(59)	-	-	-	-
Employee entitlements	803	174	(4)	-	-	973
Net provision for lease make good	45	-	-	-	-	45
Other accrued expenses	642	(3)	77	-	-	716
Net foreign exchange gain	(74)	74	-	-	-	-
Blackhole expenditure	315	175	-	-	-	490
Prepayments	(12)	11	-	-	-	(1)
Tax losses carried forward	4,419	(79)	(5)	113	(335)	4,113
	7,374	711	68	119	(335)	7,937
DTL in relation to:						
Right to future management fees	2,003	2,001	-	16	-	4,020
Loans and advances	80	(1,524)	-	-	-	(1,444)
Deferred bond issue cost	1,305	112	-	-	-	1,417
Derivatives	(497)	(201)	-	(186)	-	(884)
	2,891	388	-	(170)	-	3,109
	4,483	323	68	289	(335)	4,828

RECOGNITION AND MEASUREMENT

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.4. CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.5. DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities (DTL's) are generally recognised for all taxable temporary differences.

Deferred tax assets (DTA's) are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such DTA's and DTL's are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

In addition, DTL's are not recognised if the temporary difference arises from the initial recognition of goodwill.

DTL's are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

DTA's arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of DTA's is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

DTL's and DTA's are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of DTL's and DTA's reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.6. CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.7. TAX CONSOLIDATION

On 25 October 2016, the RESIMAC tax consolidated group joined the Homeloans tax consolidated group, with Homeloans being the head entity.

The RESIMAC tax consolidated group members obtained a deed of release from RESIMAC and settled the tax liabilities on exit.

The tax attributes of the RESIMAC consolidated group, including transferable tax losses and franking credits were transferred to Homeloans.

3.7.1. Allocable Cost Amount (ACA)

The assets of RESIMAC were taken to have been acquired by Homeloans and the tax cost base of these assets was reset under the ACA tax consolidation rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

3.8. 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.

In addition to its own current and deferred tax amounts, the head entity also recognised 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 Homeloans tax consolidated group.

3.9. 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.

Key Judgment

The Group's accounting for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions.

Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

4. Cash and Cash Equivalents

	Note	FY17 $'000	FY16 $'000
Cash at bank and on hand		**18,542**	12,311
Cash collections account [1]		**166,210**	149,183
Restricted cash [2]		**2,357**	-
		187,109	161,494

	Note	FY17 $'000	FY16 $'000
Reconciliation of profit after tax to the net cash flows from operating activities			
Profit after tax		**15,780**	13,048
Non-cash items:			
Depreciation and amortisation	2	**1,046**	1,179
Amortisation of bond issue costs	2	**4,122**	3,814
Share of joint venture profit		**-**	(742)
Gain on sale of interests in joint ventures	23	**(1,080)**	-
Loss on financial assets classified as held for trading		**-**	661
Fair value movement on interest rate swaps		**334**	971
Loan impairment movement		**1,579**	2,153
Net gain on disposal of non-current assets		**12**	-
Present value of future trail commission income		**1,632**	73
Present value of future trail commission expense		**(51)**	-
Impairment allowance account		**(4,258)**	(2,887)
Deferred tax asset		**3,710**	(158)
Deferred tax liabilities		**(274)**	-
Provisions		**(895)**	221
Derivative financial liabilities		**(20)**	-
(Increase)/decrease in assets			
Trade and other receivables		**4,466**	(952)
Loans and advances		**(1,234,028)**	(772,253)
Increase/(decrease) in liabilities			
Trade and other receivables		**6,883**	9,644
Current tax liability		**(3,136)**	(765)
Interest-bearing liabilities		**(2,300)**	(4,145)
Net cash flows used in operating activities		**(1,206,478)**	(750,138)

1 Cash collections account includes monies in the SPVs, securitisation trusts and Paywise on behalf of members in those Trusts and various clearing accounts. These funds are not available for operational use. 2 Cash held in trust as collateral for the borrowing facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

RECOGNITION AND MEASUREMENT

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition. Bank overdrafts are shown within borrowings in financial liabilities in the Statement of financial position.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

5. Trade and Other Receivables

	Note	FY17 $'000	FY16 $'000
Current			
Fee and commission receivable		**2,585**	-
Prepayments		**1,995**	721
GST refund		**1,209**	488
Sundry receivable		**1,885**	1,873
		7,674	3,082

RECOGNITION AND MEASUREMENT

All receivables are derived from the normal course of business. No maturity dates are specified as they are normally settled within twelve months. There are no long term outstanding receivables as at the reporting date.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability 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.

TERMS AND CONDITIONS RELATING TO THE ABOVE

5.1. FEE AND COMMISSION RECEIVABLE

Upfront and trail commission on settlement terms of 30 days. This is initially recognised at the fair value of the consideration received or receivable.

5.2. SUNDRY RECEIVABLE

5.2.1. Accrued Interest

Interest income due from loans and advances operated by the securitised trusts and funding warehouses is accrued using the effective interest method.

5.2.2. Last Day's Collection Receivable

This relates to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

6. Loans and Advances

	Note	FY17 $'000	FY16 $'000
Gross loans and advances			
Loans and advances		**6,627,335**	5,229,066
Capitalised incentive costs		**21,852**	13,468
Capitalised mortgage insurance costs		**1,014**	1,654
Recognised deferred mortgage fee		**(7,718)**	(5,191)
Loans to related parties		**6,035**	14,245
Other loans		**-**	184
		6,648,518	5,253,426
Less: allowance for impairment		**(5,530)**	(8,109)
		6,642,988	5,245,317
Current		**1,367,518**	41,313
Non-current		**5,281,000**	5,212,113
		6,648,518	5,253,426
Impairment allowances			
Collective allowance		**2,166**	2,016
Specific allowance		**3,364**	6,093
		5,530	8,109
Movement in impairment allowances			
Balance at 1 July		**8,109**	8,843
Provided for during the year		**1,334**	2,153
Written off		**(4,278)**	(2,887)
Additional amounts recognised from business combinations occurring in the current period		**365**	-
Balance at 30 June		**5,530**	8,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

RECOGNITION AND MEASUREMENT

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 the Statement of comprehensive income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

6.1. LOANS PAST DUE BUT NOT IMPAIRED

Payment terms of these loans have not been renegotiated, however no further advances are provided until payment is made. The Group is in direct contact with relevant borrowers to enter into payment arrangements which will bring the account fully up to date within an acceptable period.

For Prime Insured loans expected recoverable amounts are adjusted to reflect lower than 100% Lenders Mortgage Insurance (LMI) recovery where applicable e.g. due to costs associated with maintaining the security value within the terms of the LMI agreement (i.e. other than fair wear and tear). They 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 one off 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.

Key Judgments

6.2. IMPAIRMENT AND PROVISIONING

The Group assesses at each balance date whether there is any objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty borrower; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- past experience of collecting payments; or
- an increase in the number of delayed payments in the portfolio past the average credit period; or
- observable changes in national or local economic conditions that correlate with default on receivables.

The level of expected future cash flows compared to the carrying amount of each loan is considered.

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.

Key Judgments (cont.)

The Group has:

- individually assessed provisions which are made against loans and advances; and
- collectively assessed provisions.

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

The collective provision is held on an expected basis for losses incurred within the portfolio that are yet to be individually identified. It is a forecast expected loss (whether raising an individually assessed provision or actual write-off) for the following 12 months.

The Collective Provision model uses estimates of:

- Probability of Default;
- Loss Given Default; and
- Exposure at Default based on historical data.

This is calculated at an individual loan level and aggregated to a portfolio level. Key model drivers include arrears, documentation type, mortgage insurance, loan-to-value ratio and product type.

Management also consider overall portfolio composition, performance and economic outlook in estimates and judgments.

An allowance for impairment is maintained against the mortgage loan receivables within the securitisation trusts and funding warehouses.

6.3. SECURITY PROPERTIES REPOSSESSED

As at 30 June 2017, the Group had exercised their right to liquidate 15 residential properties being the security for securitised loans. The Group intends to sell these properties with the proceeds to go towards clearing the outstanding balance of the underlying loans. It is expected that the outstanding balance will be recovered in full (unless an individually assessed provision has been raised against the specific loan).

7. Other Financial Assets

	Note	FY17 $'000	FY16 $'000
Present value of future trail commission receivable	20	**62,006**	-
Unlisted shares	20	**443**	443
		62,449	443
Current		**15,719**	-
Non-current		**46,730**	443
		62,449	443

RECOGNITION AND MEASUREMENT

7.1. PRESENT VALUE OF FUTURE TRAIL COMMISSION RECEIVABLE

The Group receives trail commissions from lenders on non-principally funded 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 trail commission payments to introducers based on the loan book balance outstanding (refer Note 13).

7.1.1. Initial Recognition

Fair value of future trail commission receivable and the corresponding payable is recognised on the origination of non-principally funded and other third party loan settlements at inception. This represents the NPV of the expected future trail commission receivable and payable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

The initial fair value of trail commission receivable and the corresponding trail commission payments to introducers is determined by using the discounted cash flow valuation technique.

7.1.2. Subsequent Measurement

Subsequent to initial recognition, the future trail commission receivable and payable is measured at amortised cost.

The carrying amounts of the trail commissions receivable and payable are 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.

A remeasurement of the underlying cash flows relating to the trail commission receivable and payable occurs at each reporting date.

7.1.3. Key Estimates and Assumptions

The key estimates and assumptions underlying the remeasurement of the estimated future cash flows include the:

- prepayment rate; and
- discount rate.

The assumptions to be used in the valuation by management are based primarily on a bi-annual assessment made in conjunction with external actuaries and determined as follows:

	FY17
Weighted average loan life (years)	**3.2**
Discount rate (%)	**6%**

Weighted average loan life

The methodology in calculating the weighted average loan life uses the commonly accepted Standard and Poor's definition.

7.1.4. Key Judgments

The recognition of the future trail commission receivable and payable (and resulting revenue/expense) is an area of management judgment due to the different recognition criteria existing within the accounting standards. Decisions around the key inputs can have a material impact on the balances.

Management judgment is required with respect to the determination of:

- Prepayment rate

Of all the key inputs for NPV modelling, it is prepayment or run-off rates to which the model is most sensitive. In observing prior years' actual run-off performance, there can be variations over time of up to 25% on individual seasoning bands and variations of over 10% for year-on-year overall run-off.

In order to manage both volatility of rates over time and also the uncertainty associated with this modelling, a run-off buffer is included in the valuation by management.

- Discount rates

For the purposes of the valuation technique required by the standard, the discount rate is set each year and remains unchanged for that tranche of loans for the remainder of the loan's life.

The discount rate is currently set at 6%, incorporating risk free rates and estimates of the likely credit risk associated with the counterparties providing the trail income (i.e. risk free rate of 1.9% based on AUD 10 year government bond rate and a counterparty risk estimate of 3%). Following the resetting of the valuation on the merger, the valuation assumption at 30 June 2017 reflects a discount rate of 6%, while previously this was a mix of 12% for loans pre June 2014 and 6% post this date.

Given the actual trail income receivables are from strongly rated major financial institutions, this low credit risk is regarded as appropriate.

7.2. UNLISTED SHARES

Investments that are not traded in an active market, but classified as available for sale financial asset and stated at fair value at the end of each reporting period.

8. Property, Plant and Equipment

	Note	**FY17 $'000**	FY16 $'000
Carrying amounts of:			
Plant and equipment		**1,346**	918
Equipment under finance lease		**5**	12
		1,351	930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

	Note	Plant and equipment at cost $'000	Equipment under finance lease at cost $'000	Total $'000
Balance at 1 July 2016		**918**	**12**	**930**
Additions		**736**	**-**	**736**
Disposals and write-offs		**(35)**	**-**	**(35)**
Depreciation expense		**(858)**	**(7)**	**(865)**
Foreign exchange		**(51)**	**-**	**(51)**
Additional amounts recognised from business combinations occurring in the current period		**636**	**-**	**636**
Balance at 30 June 2017		**1,346**	**5**	**1,351**
Balance at 1 July 2015		793	46	839
Additions		621	-	621
Disposals and write-offs		(77)	-	(77)
Depreciation expense		(453)	(34)	(487)
Foreign exchange		34	-	34
Balance at 30 June 2016		918	12	930

RECOGNITION AND MEASUREMENT

Fixtures and equipment is stated at cost less accumulated depreciation and impairment losses.

8.1. DEPRECIATION AND AMORTISATION

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following useful lives are used in the calculation of depreciation:

	Years
Leasehold improvement and office furniture	**5**
Office machines and computer equipment	**3-5**

8.2. DERECOGNITION

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 the disposal or retirement of an item of plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS
for the year ended 30 June 2017

9. Other Assets

	Note	FY17 $'000	FY16 $'000
Reinsurance claim receivable		**2,792**	4,321
Collateral deposit		**689**	736
Other		**22**	23
		3,503	5,080
Current		**711**	759
Non-current		**2,792**	4,321
		3,503	5,080

RECOGNITION AND MEASUREMENT

9.1. REINSURANCE CLAIM RECEIVABLE

Prime Insurance Group Ltd was purchased by the Company as part of the RHG Mortgage Corporation Limited acquisition in 2014. Its sole purpose is to provide insurance service and re-insurance facilities for the RHG mortgage assets and process any shortfall claims received.

The reinsurance claim receivable is available to utilise against the reinsurance claim reserve amount in Note 14.

9.2. COLLATERAL DEPOSIT

The Group has given the following financial guarantees given to banks:

- ANZ guarantee and WBC (Fleet funded) guarantee to secure Paywise's ANZ card product and Caltex fuel card product; and
- Westpac Banking Corporation guarantee is to secure Paywise's Melbourne office premises.

All have maturity dates of less than 12 months.

10. Intangible Assets

	Note	FY17 $'000	FY16 $'000
Goodwill			
Balance at 1 July		**434**	434
Additional amounts recognised from business combinations occurring in the current period	24	**21,332**	-
Balance at 30 June		**21,766**	434
Other intangible assets			
Balance at 1 July		**897**	1,065
Additions		**164**	582
Amortisation for the year		**(531)**	(750)
Balance at 30 June		**530**	897
		22,296	1,331

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (less accumulated impairment losses, if any).

10.1. IMPAIRMENT TESTING

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's) (or groups of CGU's) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

10.1.1. Recoverable Amount of the Asset

The recoverable amount is equal to the greater of:

- fair value less costs to sell; and
- value in use (VIU).

It is not always necessary to determine both the fair value less cost to sell and its VIU. If either of these amounts exceed the carrying amount of the CGU, there is no impairment of the goodwill and it is not necessary to estimate the other amount.

As a result, the VIU methodology is considered to be most appropriate as there is no readily available market outside specific business sales of an equivalent sized business to the Australian Lending business segment.

The VIU calculation requires the Director's to estimate future cash flows expected to arrive from the CGU and a suitable discount rate in order to calculate present value.

10.1.2. Indicators of Impairment

The minimum indicators of impairment have been considered by Management. These include both internal and external sources of information such as:

- significant changes (historical and future) in the market, economic, legal or technological environment which would have an adverse impact on the Group;
- interest rate changes which impact the discount rate used in modelling;
- evidence of a worsening financial position; and
- plans to discontinue operations.

Management have assessed that there are no such indicators which would impair the goodwill balance as at 30 June 2017.

10.2. INPUTS TO IMPAIRMENT CALCULATIONS

10.2.1. Cash Flow Projections

For VIU calculations, cash flow projections are based on corporate plans and business forecasts prepared by management and approved by the Board. The corporate plans are projected out by three years. Cash flow projections are for five years and a terminal growth rate beyond this has been applied.

10.3. IMPAIRMENT ASSESSMENT

In assessing VIU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

Goodwill arising from the business combination in the current period (refer to Note 24) has been allocated for impairment testing purposes to the Australian Lending Business segment. This segment is considered to be the CGU that is expected to benefit from the synergies of the business combination.

Furthermore, each unit or group of units to which the goodwill is allocated shall:

- represent the lowest level at which the goodwill is monitored for internal management purposes; and
- not exceed the operating segments.

The allocation of goodwill to these CGU's is considered appropriate.

10.4. KEY JUDGMENTS AND ASSUMPTIONS

The key assumptions used for assessing the recoverable amount of the Australian Lending Business CGU are set out below:

	2017 $'000
Discount rate	**12.0%**
Terminal growth rate	**2.0%**

The discount rate of 12% has been determined by estimating the cost of equity that applies to the Australian Lending segment, and the terminal growth rate of 2% reflects management's assumption of growth in profit before tax after five years. Both of these assumptions are consistent with industry data for similar business.

10.4.1. Sensitivity to Change in Assumptions

Management believes that possible changes in the assumptions, such as +/- 1% discount rate, would not cause the recoverable amount of the CGU to be less than its carrying value.

Furthermore, the VIU under the 'base case' is broadly in line with the current market capitalisation.

10.5. IMPAIRMENT CHARGE

Based upon the impairment testing performed, there is no impairment charge for FY17 (FY16: nil).

OTHER INTANGIBLE ASSETS

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

	Useful life
Intellectual property	**7 years**
Software	**3-5 years**

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for the year ended 30 June 2017

11. Trade and Other Payables

	FY17 $'000	FY16 $'000
Revenue collected in advance	**9,355**	5,260
Collections owed to trusts	**9,052**	3,123
Other creditors and accruals	**9,428**	5,877
Fleet management funds	**5,493**	4,523
Commissions	**3,825**	2,035
Other	**1,192**	2,244
	38,345	23,062
Current	**38,345**	23,062

RECOGNITION AND MEASUREMENT

Trade creditors and other payables, which are generally settled within 30 day terms and are unsecured, are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

11.1. TRADE CREDITORS

Trade creditors are unsecured payables relating to expenses arising in the ordinary course of business. They are usually paid within 30 days of recognition.

11.2. REVENUE COLLECTED IN ADVANCE

Includes funds held by Paywise to administer salary packaging for its client's employees amounting to $8.4 million (FY16: $4.9 million).

11.3. COLLECTIONS OWED TO TRUSTS

Relates to collections received from borrowers that reside in clearing accounts that have not yet been allocated to a trust.

11.4. FLEET MANAGEMENT FUNDS

Represents cash held by Paywise to administer fleet management. This cash is not available for use by Paywise except to settle future costs in relation to these services for customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

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12. Interest-Bearing Liabilities

	Note	FY17 $'000	FY16 $'000
Debt securities on issue		**6,594,908**	5,274,093
Corporate debt facility		**20,000**	19,000
Issuance facilities		**83,442**	44,085
Loans from related parties		**9,795**	11,950
Lease liability		**610**	65
	20	**6,708,755**	5,349,193
Current		**1,379,908**	3,164,379
Non-current		**5,328,847**	2,184,814
		6,708,755	5,349,193

RECOGNITION AND MEASUREMENT

All borrowings are initially recognised at fair value of the consideration received less directly attributable 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 profit or loss (FVTPL).

Amortised cost is calculated by taking into account any fees and or received between parties to the contract that are integral part of the effective interest rate, transaction 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, as well as through the amortisation process.

For further detail on the amortised cost basis of accounting see Note 1 and 2.

Details of the Group's interest-bearing liabilities are set out in Note 20.

12.1. DEBT SECURITIES ON ISSUE

12.1.1. Warehouse Facilities

The warehouse facilities provide funding for the initial financing of loans and advances to customers within the SPV and its Series. Refer Note 22 for the consolidation of the SPV's. The security for advances under these facilities is a combination of fixed and floating charges over all assets of the SPV. If the warehouse facility is not renewed or should there be a default under the existing terms and conditions, the warehouse facility funder will not have a right of recourse against the remainder of the Group.

Warehouse facilities are secured against the underlying mortgages only.

During the financial year there were no breaches to the agreement. All warehouse facilities were renewed on their maturity date.

12.2. SECURITISED FUNDING FACILITIES

During the year ended 30 June 2017, $2.25 billion of new Residential Mortgage Backed Securities (RMBS) were issued (FY16: $1.44 billion). These issues paid down the warehouse facilities creating capacity to underwrite new mortgages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

12.3. BONDS

RMBS were issued to provide duration funding for loans and advances (securitised assets) originated by the Group. The RMBS notes generally have a legal final maturity of 31.5 years from issue, and a weighted average life of up to 5 years.

The SPV security is a combination of fixed and floating charges over all assets of the SPV. Under the current Trust terms, a default by the borrowers will not result in the bondholders having a right of recourse against the Group (as Originator, Trust Manager or Servicer).

During the financial year, there were no breaches to the terms of the RMBS.

12.4. COLLATERAL

Certain warehouse facilities are supported by cash collateral reserves.

12.5. CORPORATE DEBT FACILITY

As at 30 June 2017, the Group had an undrawn balance of $5.0 million on its corporate debt facility (FY16: $5.0 million). In accordance with the terms of the Group's corporate debt facilities, the Group is required to comply with certain covenants. During the period and as at 30 June 2017, the Group was compliant with these covenants.

The corporate debt facility is secured over certain assets of the Group.

12.6. LOANS FROM RELATED PARTIES

In line with its ordinary course of business, the Group provides a related party a performance guarantee in respect to timely payment of interest and principal on specific unrated RMBS and warehouse bonds.

Subordinated notes in three controlled entities are held by the related party as at 30 June 17 amount to $9,794,048 (FY16: $11,500,000). Coupons on these notes are paid monthly or quarterly at commercial interest rates.

13. Other Financial Liabilities

	Note	**FY17 $'000**	FY16 $'000
Present value of future trail commission payable		**28,328**	-
	20	**28,328**	-
Current		**7,206**	-
Non-current		**21,122**	-
		28,328	-

RECOGNITION AND MEASUREMENT

The Group makes trail commission payments to introducers and commission staff based on the loan book balance outstanding.

Refer to Note 7 for the Group's:

- accounting policies; and
- key estimates and judgments in relation to the initial recognition and subsequent measurement of future trail commissions payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ KEY NUMBERS

for the year ended 30 June 2017

14. Other Liabilities

	Note	FY17 $'000	FY16 $'000
Reinsurance claim reserve		**2,792**	4,321
		2,792	4,321
Non-current		**2,792**	4,321

The reinsurance claim reserve offsets with the reinsurance claim receivable amount in Note 9.

15. Provisions

	Note	FY17 $'000	FY16 $'000
Employee benefits		**3,726**	3,260
Make good		**463**	144
Other		**955**	124
		5,144	3,528
Current		**4,402**	2,906
Non-current		**742**	622
		5,144	3,528

	Employee benefits $'000	Make good $'000	Other $'000	Total $'000
Balance at 1 July 2016	**3,260**	**144**	**124**	**3,528**
Additional provisions recognised	**466**	**339**	**852**	**1,657**
Reductions resulting from remeasurement or settlement without cost	**-**	**(20)**	**(21)**	**(41)**
Balance at 30 June 2017	**3,726**	**463**	**955**	**5,144**

RECOGNITION AND MEASUREMENT

Provisions are recognised when:

- the Group has a present obligation (legal or constructive) as a result of a past event:
- it is probable that the Group will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

15.1. EMPLOYEE BENEFITS

A liability is recognised for benefits accruing to employees in respect of:

- wages and salaries;
- annual leave; and
- long service leave.

when they are capable of being measured reliably and it is probable that settlement will be required.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to settle within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

15.2. LONG SERVICE LEAVE

The liability for long service leave is recognised in the provision for employee benefits. It is measured as the present value of expected future payments for the services provided by employees up to the reporting date.

Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

15.3. MAKE GOOD

Make good provisions where it is a condition of the lease of the Group's premises to return the property in its original condition at the end of the lease term. The Group recognises a provision for the make good as the expected cost of the refurbishment over the life of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ CAPITAL

for the year ended 30 June 2017

16. Capital Management

THE GROUP'S CAPITAL MANAGEMENT OBJECTIVES

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group operates a warehouse to securitisation funding model for its lending business and as such makes decisions on the amount of capital invested in the notes or warehouses based on alternate sources of funding and the expected return on amounts invested and with regard to the company's cost of capital.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 12 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as detailed in Note 18).

The Group is not subject to any externally imposed capital requirements.

The Board is responsible for monitoring and approving the capital management framework within which management operates. The purpose of the framework is to prudently manage capital whilst optimising the debt and equity structure.

Equity	Note	FY17 $'000	FY16 $'000
Issued capital	18	**113,221**	63,968
Reserves		**(3,141)**	42
Retained earnings	18	**31,119**	18,329
Non-controlling interest		**9**	(3)
		141,208	82,336

The Group manages its capital through various means, including:

- adjusting the amount of ordinary dividends paid to shareholders;
- maintaining a dividend reinvestment plan;
- raising or returning capital; and
- reinvesting profits into book growth.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ CAPITAL

for the year ended 30 June 2017

17. Dividends

	FY17 $'000	FY16 $'000
Declared and paid during the period (fully-franked at 30 per cent)		
Interim dividend for HY17: $0.0075	**2,968**	-
	2,968	-

Proposed and unrecognised as a liability (fully-franked at 30 per cent)		
Final dividend for FY17: $0.0075	**2,953**	-

Franking credit balance		
Franking credits available for future years at 30 per cent adjusted for the payment of income tax and dividends receivable or payable	**12,999**	8,097
Impact on the franking account of dividends proposed before the financial report was issued but not recognised as a distribution to equity holders during the period	**(1,266)**	-

18. Issued Capital and Reserves

	FY17 $'000	FY16 $'000
Share capital	**174,762**	134,157
Reverse acquisition reserve [1]	**(61,541)**	(70,189)
	113,221	63,968

1 As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This account called 'Reverse acquisition reserve' is similar in nature to share capital. The Reverse acquisition reserve is not available for distribution. This equity account represents a net adjustment for the replacement of the legal parent's (Homeloans) equity with that of the deemed acquirer (RESIMAC).

Issued capital as at 30 June 2017 was amended to $174,762,205 (393,687,080 ordinary shares).

During the period, the Company issued 2,520,383 shares for $1,214,650 in respect of the vesting of the Homeloans long-term incentive and short-term incentive plans.

In addition, 285,439,478 shares were issued on 25 October 2016 in exchange for 100% of the share capital of RESIMAC.

In accordance with AASB 3, the equity structure of RESIMAC is restated using the exchange ratio established in the scheme agreement to reflect the 285,439,478 shares issued by Homeloans on 25 October 2016 to acquire RESIMAC at a legal consideration price of $0.47 per share representing a value of $134,156,555.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ CAPITAL

for the year ended 30 June 2017

18.1. FULLY PAID ORDINARY SHARES

	Note	No. of shares - thousands	$'000
Balance at 1 July 2015		285,439	134,157
Balance at 30 June 2016 and 1 July 2016		285,439	134,157
Issue of shares on acquisition of Homeloans Limited		**108,248**	**40,605**
Balance at 30 June 2017		**393,687**	**174,762**

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends.

18.2. RESERVES (NET OF INCOME TAX) AND RETAINED EARNINGS

		Reserves		
	Retained earnings $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Non-controlling interest $'000
Balance 1 July 2015	6,255	(259)	(151)	(10)
Profit after tax	13,041	-	-	7
Reversal of prior year reserve on wind-up of trusts	(615)	-	-	-
Changes in fair value of cash flow hedges, net of tax	(176)	(436)	-	-
Currency translation differences	(176)	-	888	-
Balance at 30 June 2016	**18,329**	**(695)**	**737**	**(3)**
Balance 1 July 2016	**18,329**	**(695)**	**737**	**(3)**
Profit after tax	**15,768**	**-**	**-**	**12**
Reversal of prior year reserve on wind-up of trusts	**(22)**	**-**	**-**	**-**
Changes in fair value of cash flow hedges, net of tax	**17**	**(3,043)**	**-**	**-**
Currency translation differences	**11**	**-**	**(157)**	**-**
Payment of dividends	**(2,967)**	**-**	**-**	**-**
Balance at 30 July 2017	**31,136**	**(3,738)**	**580**	**9**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ CAPITAL

for the year ended 30 June 2017

NATURE AND PURPOSE OF RESERVES

18.2.1. Cash Flow Hedge Reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

18.2.2. Foreign Currency Translation Reserve

Exchange differences relating to the translation of the results and net assets of the Group's New Zealand operations from its functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

18.2.3. Retained Earnings

See Note 17 in respect of payment of dividends.

19. Earnings Per Share

	FY17	FY16
Profit attributable to ordinary equity holders of the parent ($'000)	**15,780**	13,048
WANOS [1] used in the calculation of basic EPS (shares, thousands)	**359,285**	285,439
WANOS [1] used in the calculation of diluted EPS (shares, thousands)	**359,285**	285,439
Earnings per share		
Basic (cents per share)	**4.39**	4.57
Diluted (cents per share)	**4.39**	4.57

1 Weighted average number of shares

CALCULATION OF EARNINGS PER SHARE

19.1. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to the ordinary equity holders of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the WANOS adjusted for any bonus element.

19.2. DILUTED EARNINGS PER SHARE

Diluted earnings per share is calculated by:

- dividing the net profit attributable to ordinary equity holders of the parent; by the
- WANOS outstanding during the year; plus
- the WANOS that would be issued on the conversion of all the dilutive potential ordinary options or rights into ordinary shares.

19.3. CALCULATION OF WANOS

In accordance with specific guidance provided in AASB 3 *Business Combinations* the WANOS outstanding has been calculated as follows:

Twelve months to 30 June 2017

The number of ordinary shares issued by:

- **Homeloans to RESIMAC from 1 July 2016 to 24 October 2016 (90,715,012)**

  The number of RESIMAC shares on issue of 22,230,489 multiplied by the exchange ratio established in the acquisition agreement of 12.84 multiplied by ratio of days outstanding (116/365); plus

- **RESIMAC from 25 October 2016 to 30 June 2017 (268,570,090)**

  The number of Homeloans ordinary shares on issue (393,687,080) multiplied by the ratio of days outstanding (249/365).

Twelve months to 30 June 2016

The number of RESIMAC ordinary shares on issue by RESIMAC of 22,230,489 multiplied by the exchange ratio of 12.84.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

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20. Financial Assets and Financial Liabilities

The Group holds the following financial instruments:

Financial assets	Basis of measurement	Note	FY17 $'000	FY16 $'000
Cash and cash equivalents	Amortised cost	4	**187,109**	161,494
Trade and other receivables	Amortised cost	5	**7,674**	3,082
Loans and advances	Amortised cost	6	**6,642,988**	5,245,317
Future trail commission receivable	Amortised cost	7	**62,006**	-
Investment securities - held for trading	FVTPL	7	**443**	443
Derivative financial asset	FVTPL	21	**7,297**	45,998
			6,907,516	5,456,334

Financial liabilities				
Trade and other payables	Amortised cost	11	**38,345**	23,062
Interest-bearing liabilities	Amortised cost	12	**6,708,755**	5,349,193
Future trail commission payable	Amortised cost	13	**28,328**	-
Derivative financial liabilities	FVTPL	21	**4,384**	5,214
			6,779,812	5,377,469

20.1. FAIR VALUES MEASUREMENTS AND VALUATION PROCESSES

20.1.1. Fair value Hierarchy

The different levels have been defined as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

for the year ended 30 June 2017

The following assets and liabilities are measured at fair value by the Group for financial reporting purposes:

Financial assets	Fair value hierarchy	Valuation technique(s) and key input(s)	FY17 $'000	FY16 $'000
Unlisted shares	Level 2	Most recent traded price and other available market information	**443**	443
Cross currency swaps	Level 2	Discounted cash flow Forward exchange rates, contract forward rates	**7,297**	45,998
Financial liabilities				
Interest rate swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	**(639)**	(1,375)
Cross currency swaps	Level 2	Discounted cash flow Forward exchange rates, contract forward rates	**(3,745)**	(3,839)

In the year to 30 June 2017 there has been no change in the fair value hierarchy or the valuation techniques applied to any of the balances above.

For further information on the use of derivatives refer to Note 21 - Financial Risk Management.

20.1.2. Fair Value of financial assets and liabilities that are not measured at fair value (but fair value disclosures are required)

With the exception of the future trail commission receivable and payable that are initially recognised at fair value and subsequently carried at amortised cost, the directors consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair values.

As the future trail commission receivable and payable were remeasured at fair value as part of the acquisition accounting, the fair value approximates the amortised cost at 30 June 2017.

RECOGNITION AND MEASUREMENT

20.2. FINANCIAL ASSETS

Financial assets are classified into the following specified categories:

- FVTPL;
- held-to-maturity investments;
- available-for-sale (AFS) financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period established generally by regulation or convention in the marketplace.

20.2.1. Effective Interest Method

The effective interest method is a method of calculating the amortised costs of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that forms an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

20.2.2. Held-to-Maturity Investments

Are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

20.2.3. AFS Financial Assets

Are non-derivatives that are either designated as AFS or are not classified as:

- loans and receivables;
- held-to-maturity investments; or
- financial assets at FVTPL.

20.2.3.1. Listed Shares and Redeemable Notes

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period.

20.2.3.2. Unlisted Shares

The Group also has investments in unlisted shares that are not traded in an active market but are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured).

20.2.3.3. Changes in Carrying Amounts

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income using the effective interest method and dividends on AFS equity instruments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of AFS revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's rights to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

20.2.4. Loans and Advances

Loans and advance and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

20.2.5. Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

Objective evidence of impairment for a portfolio of receivables could include:

- the Group's past experience of collecting payments;
- an increase in the number of delayed payments in the portfolio past the average credit period; and
- observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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 through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of AFS revaluation reserve.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

20.2.6. Derecognition of Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

20.3. FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities at FVPTL or other financial liabilities.

20.3.1. Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

20.3.2. Other Financial Liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition

20.3.3. Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

21. Financial Risk Management

21.1. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's Corporate Treasury functions provides:

- services to the business;
- co-ordinates access to domestic and international financial markets; and
- monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risk.

These risks include:

- market risk (including currency risk, interest rate risk and other price risk);
- credit risk; and
- liquidity risk.

21.2. DERIVATIVE FINANCIAL INSTRUMENTS

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on:

- foreign exchange risk;
- interest rate risk;
- credit risk;
- the use of financial derivatives and non-derivative financial instruments; and
- the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the Board on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The table below summarises the Group's exposure to financial risks and how these risks are managed:

Risk	Exposure arising from	Measurement	Management
Market risk - currency	Recognised financial assets and liabilities not denominated in Australian dollars Foreign currency denominated profit or losses	Cash flow forecasting Sensitivity analysis	Cross currency interest rate swaps Cash flow management and matching
Market risk - interest rate	Mismatch in interest rates between assets and liabilities	Sensitivity analysis	Cross currency interest rate swaps Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables, derivative financial instruments, loans and advances	Credit risk analysis	Diversification, Strong collections / portfolio management
Liquidity risk	Borrowings, derivative financial liabilities and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities, Securitisation, Structuring terms of obligations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

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RECOGNITION AND MEASUREMENT

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each reporting period.

The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

21.3. HEDGE ACCOUNTING

The Group designates certain hedging instruments, which includes derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 20.1.1 sets out the details of the fair values of the derivative instruments used for hedging purposes.

21.3.1. Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other expenses or other income line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group:

- revokes the hedging relationship;
- the hedging instrument expires or is sold, terminated, or exercised; or
- no longer qualifies for hedge accounting.

Any cumulative gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

21.3.2. Derivative Financial Assets and Liabilities

The carrying values are as follows:

	FY17 $'000	FY16 $'000
Derivative financial asset		
Cross currency swaps	**7,297**	45,998
	7,297	45,998
Derivative financial liabilities		
Cross currency swaps	**3,745**	3,839
Interest rate swaps	**639**	1,375
	4,384	5,214

21.4. MARKET RISK

Market Risk is the risk of an adverse impact on the Group's earnings resulting from changes in market factors, such as interest rates and foreign exchange rates.

21.4.1. Interest Rate Risk - Cash Flow and Fair Value

Interest rate risk is the risk that the Group will experience deterioration in its financial position as interest rates change over time.

Interest rate exposure is created due to repricing and creating mismatches in interest rates between assets and liabilities (i.e. borrowing at floating interest rates and lending with fixed interest rates). Interest rate risk may be managed by entering into interest rate swaps subject to the Group's hedging and derivatives policies.

21.4.2. Interest Rate Risk - Sensitivity Analysis

The majority of the Group's liabilities are issued through warehouse facilities and term securitisations in special purpose entities. Under such arrangements, the repayment profile of the bonds is matched to the repayments collected from the loan assets.

The Group has calculated the impact of a potential increase or decrease in borrowing costs in limited recourse entities for the year in the event of a +/- 10bps change in interest rates as shown in the table below:

	FY17 $'000	FY16 $'000
10bps +/-		
Borrowing costs in special purpose entities	**6,701**	5,332

21.4.3. Interest Rate Swap Contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below.

The following table detail the notional principal amounts outstanding at the end of the reporting period.

	FY17 $'000	FY16 $'000
Fair value		
Held for trading	**639**	1,375
	639	1,375
Notional principal value		
Less than 1 year	**811**	515
1 to 2 years	**15,035**	1,096
2 to 5 years	**27,481**	52,412
5 years +	**-**	-
	43,327	54,023

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating interest rate payments on debt affect profit or loss.

Any impact on funding costs in the special purpose entities as a result of changes to interest rates would be offset by a corresponding +/- impact on interest revenue proportionate to assets held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

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The remainder of the Group's loan portfolio and liabilities are held in corporate entities. The impact of a potential +/- 10bps change in interest rates on interest revenue and borrowing costs on balances held by corporate entities for the year is set out in the table below:

	FY17 $'000	FY16 $'000
10bps +/-		
Corporate interest revenue	**180**	161
Corporate funding costs	**(20)**	(19)
	160	142

21.5. FOREIGN CURRENCY RISK

21.5.1. Accounting Translation

As at reporting date the Group held cash assets denominated in New Zealand dollars (NZD).

Fluctuations in the NZD are not expected to have material impact on the Consolidated Statement of profit or loss and other comprehensive income and equity of the Group.

21.5.2. Market Risk

Foreign Exchange on Monetary Items

The Group obtains funding denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise. These currencies include USD and Euro. The Group manages foreign currency risk through the use of currency derivatives.

The carrying amounts of the Groups foreign currency denominated assets and liabilities are as follows:

	FY17 $'000	FY16 $'000
Assets		
USD	**7,297**	45,998
Liabilities		
EUR	**(3,745)**	(3,839)

21.6. CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a customer, client or counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

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

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

for the year ended 30 June 2017

21.6.1. Credit Risk in Lending

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 in addition via LMI on certain loans. In addition, loan balances are monitored with the result that the Group's exposure to bad debts is monitored and managed.

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 current up-to-date 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.

21.6.2. Exposure to Credit Risk

Loans and advances and trade receivables consist of a large number of customers, spread across diverse demographic and geographical areas. Ongoing credit evaluation is performed on the financial condition of loans and advances and accounts receivable.

The Group does not have significant credit risk exposure to any single counterparty.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

21.6.3. Maximum Exposure to Credit Risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's exposure to credit risk at the reporting date:

	Note	**FY17 $'000**	FY16 $'000
Cash and cash equivalents	4	**187,109**	161,494
Trade and other receivables	5	**7,674**	3,082
Derivative financial assets	21	**7,297**	45,998
Present value of future trail commission receivable	7	**62,006**	-
Investment securities - held for trading	7	**443**	443
		264,529	211,017
Loans and advances at amortised cost - balances subject to credit risk	6	**6,633,370**	5,243,224
Total potential exposure to credit risk		**6,897,899**	5,454,241

As at 30 June 2017, 100% of the Group's cash and cash equivalents are held with banks or financial institutions with a credit rating of AA- or better (FY16: 100%).

21.6.3.1. Residential Mortgage Borrowers

The Group minimises credit risk by obtaining security over residential mortgage property for each loan.

In monitoring the credit risk, mortgage securitisation customers are grouped according to their credit characteristics using credit risk classification systems. This includes the use of the Loan to Value Ratio (LVR) to assess its exposure to credit risk from loans originated through the securitisation programme.

The Group is not materially exposed to any individual borrower.

For non-principally funded loans, some agreements with lenders contain provisions requiring the Group to pay instalments due from borrowers until securities are enforced or an insurance claim has been paid and to purchase the mortgage from the lender if the Group is in default. The Group's risk in this area is mitigated by insurance policies and a rigorous credit assessment process.

21.6.4. Financial Guarantees

The Group is exposed to credit risk in relation to financial guarantees given to banks provided by the Group. The Group's maximum exposure in this respect is the maximum amount the Group could have to pay if the guarantee is called on. As at 30 June 2017, an amount of $689,000 (FY16: $736,000) has been recognised in the Consolidated statement of financial position as other assets – see Note 9 for more detail.

21.6.5. Distribution of Financial Assets by Credit Quality

	FY17 $'000	FY16 $'000
Neither past due nor impaired		
Gross loans and advances	**6,562,028**	5,138,704
Financial assets other than loans and advances	**264,528**	211,032
	6,826,556	5,349,736
Past due but not impaired		
Gross loans and advances		
▪ One to three months	**25,199**	28,702
▪ Three to six months	**8,393**	11,259
▪ Greater than six months	**15,849**	21,518
	49,441	61,479
Impaired		
Gross loans and advances	**18,611**	25,041
	18,611	25,041
	6,894,608	5,436,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

for the year ended 30 June 2017

COLLATERAL HELD

The value of the collateral held as security for loans past due but not impaired at FY17 is $60.9 million (FY16: $79.3 million).

The value of the collateral held as security for impaired loans at FY17 is $26.8 million (FY16: $36.0 million).

Loans are secured by the Group by having the property titles registered as a financial interest that gives the Group first priority over any proceeds becoming available from the sale of the property.

For loans that have a LVR of 80% or higher, LMI is taken out to cover 100% of the principal amount at default plus interest.

21.6.6. Geographical Concentration and Distribution of Credit Risk for Loans and Advances at Amortised Cost

	FY17 $'000	FY16 $'000
Neither past due nor impaired		
Australia	**6,322,870**	4,973,288
New Zealand	**239,158**	165,417
	6,562,028	5,138,705
Past due but not impaired		
Australia	**45,766**	52,900
New Zealand	**3,676**	8,579
	49,442	61,479
Impaired		
Australia	**13,176**	18,192
New Zealand	**5,435**	6,849
	18,611	25,041
	6,630,081	5,225,225

21.7. LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group's funding platform currently comprises a mix of:

- warehouse facilities;
- term securitisation;
- a secured corporate debt facility; and
- cash.

The majority of the Group's liabilities represent bonds issued by special purpose trusts through warehouse facilities and term securitisation transactions. Under such arrangements, bondholder recourse is limited to the assets of the relevant special purpose trust to which the liability relates and the repayment profile of the bonds is matched to the repayments collected from the loan assets. Given the limited recourse nature of these borrowings, $4.68 billion at 30 June 2017 (30 June 2016: $3.67 billion), they have not all been included in the table below.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Note 21.7.2 below sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

21.7.1. Liquidity Risk Tables

The following table reflects the Group's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and hence will not necessarily reconcile with the amounts disclosed in the Statement of financial position.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK
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Financial liabilities	<6 months or on demand $'000	6-12 months $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total cash flows $'000	Carrying amount $'000
At 30 June 2017							
Non-derivatives							
Trade and other payables	**38,345**	**-**	**-**	**-**	**-**	**38,345**	**38,345**
Interest-bearing liabilities							
▪ Debt securities on issue	**274,206**	**334,019**	**629,267**	**366,769**	**529,704**	**2,133,965**	**1,928,435**
▪ Corporate debt facility	**49**	**20,000**	**-**	**-**	**-**	**20,049**	**20,000**
▪ Issuance facilities	**-**	**-**	**-**	**83,442**	**-**	**83,442**	**83,442**
▪ Loans from related parties	**-**	**9,795**	**-**	**-**	**-**	**9,795**	**9,795**
Lease liability	**-**	**349**	**261**	**-**	**-**	**610**	**610**
NPV of future trail commissions payable [1]	**4,559**	**4,036**	**11,641**	**6,386**	**7,793**	**34,415**	**28,328**
	317,159	**368,199**	**641,169**	**456,597**	**537,497**	**2,320,621**	**2,108,954**
Derivatives	**4,397**	**-**	**-**	**-**	**-**	**4,397**	**4,397**
	321,556	368,199	641,169	456,597	537,497	2,325,018	2,113,352
At 30 June 2016							
Non-derivatives							
Trade and other payables	23,062	-	-	-	-	23,062	23,062
Interest-bearing liabilities							
▪ Debt securities on issue	246,438	196,600	566,250	329,410	466,098	1,804,796	1,606,080
▪ Corporate debt facility	42	19,000	-	-	-	19,042	19,000
▪ Issuance facilities	-	-	-	44,085	-	44,085	44,085
▪ Loans from related parties	-	11,950	-	-	-	11,950	11,950
Lease liability	-	65	-	-	-	65	65
	269,542	227,615	566,250	373,495	466,098	1,903,000	1,704,242
Derivatives	5,214	-	-	-	-	5,214	5,214
	274,756	227,615	566,250	373,495	466,098	1,908,214	1,709,456

1 The obligation in respect of the NPV of future trail commission only arises if and when the Group receives the corresponding trail commission revenue from the lenders. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ RISK

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21.7.2. Financing Facilities

	Note	FY17 $'000	FY16 $'000
Secured corporate debt facility, with various maturity dates and which may be extended by mutual agreement			
Amount used		**15,000**	14,000
Amount unused		**5,000**	5,000
		20,000	19,000

21.8. OTHER RISK

21.8.1. Prepayment Risk - NPV of Future Trail Commissions Receivable and Payable

21.8.1.1. Exposure to Prepayment Risk

The Group will incur financial loss if customers or counterparties repay or request repayment earlier or later than expected. A change in the pattern of repayment will have an impact on the future trail commissions receivable and payable.

21.8.1.2. Sensitivity Analysis

Management engaged the use of actuaries for the purposes of reviewing the run-off rate of the loans under management. Management does not expect the run-off rate to change in excess of 10% positive or 10% negative of the rates revealed from the actuarial analysis.

The change estimate is calculated based on historical movements of the prepayment rate.

The effect from changes in prepayment rates, with all other variables held constant, is as follows:

Impact on profit		
Prepayment rate + 10%	**(3,566)**	-
Prepayment rate - 10%	**4,226**	-

Impact on equity		
Prepayment rate + 10%	**(3,566)**	-
Prepayment rate - 10%	**4,226**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

for the year ended 30 June 2017

22. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group FY17 %	FY16 %
Controlled companies - Active				
Clarence Street Finance Pty Ltd	Holder of commission agreements	Australia	**100**	100
Clarence Street Funding No. 1 Pty Ltd	Special purpose vehicle	Australia	**99.9**	99.9
Clarence Street Funding No. 2 Pty Ltd	Participation unit holder	Australia	**100**	100
Clarence Street Funding No. 3 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Clarence Street Funding No. 4 Pty Ltd	Special purpose vehicle	Australia	**100**	100
Housing Financial Services Pty Ltd	Mortgage originator	Australia	**100**	100
RESIMAC Capital Markets Pty Ltd	Trust manager	Australia	**100**	100
RESIMAC Limited	Non-bank lender	Australia	**100**	100
RHG Mortgage Corporation Ltd [1]	Lender of record	Australia	**-**	-
RHG Mortgage Securities Pty Ltd (RMS) [1]	Mortgage trustee	Australia	**-**	-
State Custodians Pty Ltd	Mortgage lender	Australia	**100**	100
The Servicing Company Pty Ltd	Trust servicer	Australia	**100**	100
Paywise Pty Ltd	Salary packaging provider	Australia	**88**	88
RESIMAC Financial Services Limited	NZ Holding company	New Zealand	**100**	100
RESIMAC Financial Securities Limited	NZ Trust manager and servicer	New Zealand	**100**	100
Prime Insurance Group Limited	LMI captive insurer	Bermuda	**100**	100
Acquired as part of reverse acquisition on 13 October 2016				
FAI First Mortgage Pty Ltd	Trust manager	Australia	**100**	100
Access Network Management Pty Ltd	Mortgage manager	Australia	**100**	100
Independent Mortgage Corporation Pty Ltd	Mortgage broker	Australia	**100**	100
Auspack Financial Services Pty Ltd	Mortgage broker	Australia	**100**	100
Barnes Mortgage Management Pty Ltd	Mortgage originator and manager	Australia	**100**	100

1 Ownership interest is 0% but Board control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

for the year ended 30 June 2017

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group FY17 %	FY16 %
Controlled companies - Dormant				
Clarence St Funding No. 5 Pty Ltd [1]	Dormant	Australia	**100**	-
Fiduciary Services Pty Ltd	Dormant	Australia	**100**	100
Jumpstart Home Loans Pty Ltd	Dormant	Australia	**100**	100
Just Drive Pty Ltd	Dormant	Australia	**100**	100
Loan Packaging Australia Pty Ltd	Dormant	Australia	**100**	100
Mortgage Processing Solutions Pty Ltd	Dormant	Australia	**100**	100
National Mutual Pty Ltd	Dormant	Australia	**100**	100
Paywise Financial Services Pty Ltd	Dormant	Australia	**100**	100
Property Research Institute - Australia Pty Ltd	Dormant	Australia	**100**	100
RESIMAC Australia Pty Ltd [2]	Dormant	Australia	**-**	100
RESIMAC Financial Services Pty Ltd	Dormant	Australia	**100**	100
RESIMAC Leasing Pty Ltd	Dormant	Australia	**100**	100
RESIMAC Operating Company Pty Ltd [3]	Dormant	Australia	**-**	100
Supermortgage Pty Ltd	Dormant	Australia	**100**	100
0508 Home Loans Ltd	Dormant	New Zealand	**100**	100
0800 Home Loans Ltd	Dormant	New Zealand	**100**	100
Feijoa Mortgage Ltd	Dormant	New Zealand	**100**	100
RESIMAC Financial Securitisation Ltd	Dormant	New Zealand	**100**	100
RESIMAC Home Loans Ltd	Dormant	New Zealand	**100**	100
RESIMAC Leasing Services Ltd	Dormant	New Zealand	**100**	100
RESIMAC NZ Home Loans Ltd	Dormant	New Zealand	**100**	100
RESIMAC (UK) Ltd	Dormant	United Kingdom	**100**	100
RESIMAC Bermuda Ltd	Dormant	Bermuda	**100**	100

1 Incorporated 24 October 2016
2 Deregistered 18 June 2017
3 Deregistered 7 June 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

for the year ended 30 June 2017

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group FY17 %	FY16 %
Acquired as part of reverse acquisition on 13 October 2016				
NSW Homeloans Pty Ltd	Dormant	Australia	**100**	100
VIC Homeloans Pty Ltd	Dormant	Australia	**100**	100
QLD Homeloans Pty Ltd	Dormant	Australia	**100**	100
SA Homeloans Pty Ltd	Dormant	Australia	**100**	100
WA Homeloans Pty Ltd	Dormant	Australia	**100**	100
I F & I Securities Pty Ltd	Dormant	Australia	**100**	100
Controlled trust - Active				
Avoca Master Trust	Issuer of RMBS [1]	Australia	**100**	100
RESIMAC Bastille Master Trust	Issuer of RMBS [1]	Australia	**100**	100
RESIMAC Triomphe Master Trust	Issuer of RMBS [1]	Australia	**100**	100
RHG Mortgage Securities Trust	Issuer of RMBS [1]	Australia	**100**	100
NZF Mortgages Warehouse A Trust	Warehouse mortgages	New Zealand	**100**	100
RESIMAC Victoire Trust	Warehouse mortgages	New Zealand	**100**	100
Acquired as part of reverse acquisition on 13 October 2016				
RMT Warehouse Trust No. 2	Warehouse mortgages	Australia	**100**	100
RMT Securitisation Trust No. 7	Issuer of RMBS [1]	Australia	**100**	100
HLL Pty Ltd	Dormant	Australia	**100**	100
Controlled trust - Dormant				
RESIMAC NIM Master Trust	Dormant	Australia	**100**	100
NZF Mortgages 2010-1 Trust	Dormant	New Zealand	**100**	100
NZF Mortgages Warehouse B Trust	Dormant	New Zealand	**100**	100

1 Residential Mortgage Backed Securities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

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SPECIAL PURPOSE ENTITIES - SECURITISED TRUSTS AND FUNDING WAREHOUSES

Special purpose entities are those entities over which the Group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of the benefits from its operation.

The Group has established special purpose entities to support the specific funding needs of the Group's securitisation programme with the aim to:

- conduct securitisation activities funded by short term warehouse facilities provided by reputable lenders; and
- hold securitised assets and issue Residential Mortgage Backed Securities.

The special purpose entities meet the criteria of being controlled entities under AASB 10 – *Consolidated Financial Statements.*

The elements indicating control include, but are not limited to, the below:

- the Group has existing rights that gives it the ability to direct relevant activities that significantly affect the special purpose entities' returns;
- the Group is exposed, and has rights, to variable returns from its involvement with the special purpose entities;
- the Group has all the residual interest in the special purpose entities;
- fees received by the Group from the special purpose entities vary on the performance, or non-performance of the securitised assets; and
- the Group has the ability to direct decision making accompanied by the objective of obtaining benefits from the special purpose entities' activities.

The Group continues to retain control over the financial assets, for which some but not substantially all the risks and rewards have been transferred to the warehouse facilities providers and the bondholders. The securitised assets and the corresponding liabilities are recorded in the Statement of Financial Position and the interest earned and paid recognised in the Statement of Comprehensive Income.

23. Associates and Joint Ventures

	FY17 $'000	FY16 $'000
Investments and associates	**-**	-
Interests in joint ventures	**-**	1,453
	-	1,453
Loss from operations of joint ventures	**-**	(280)
Gain on sale of interests in joint ventures [1]	**1,080**	-
Total comprehensive income	**1,080**	1,173

1 Part sale of 60% of the Company's holding in Finsure Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

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RECOGNITION AND MEASUREMENT

23.1. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The Group's investments in its associates, being entities in which the Group has significant influence and are neither subsidiaries nor jointly controlled assets, are accounted for using the equity method. Under this method, the investment in associates is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the associates' net assets. Goodwill relating to associates is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's investment. The Group's income statement reflects the Group's share of the associate's result.

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

Where the reporting dates of the associates and the Group vary, management accounts of the associate for the period to the Group's balance date are used for equity accounting. The associates' accounting policies are consistent with those used by the Group for like transactions and events in similar circumstances.

23.2. INTERESTS IN JOINT VENTURES

The Group recognises its share of the assets, liabilities, expenses and income from the use and output of its joint operations. The Group's investment in joint ventures is accounted for using the equity method of accounting.

23.3. INTERESTS IN ASSOCIATES AND JOINT VENTURES

Details of the Group's joint venture and associates at the end of the reporting period is as follows:

Name	Principal activity	Reporting Date	Place of Incorporation	**FY17 %**	FY16 %
Associate					
Finsure Holdings Pty Ltd	Mortgage brokerage	30 June	Australia	**28.6**	50
Joint ventures					
1300 Home Loan Holdings Pty Ltd	Mortgage lending	30 June	Australia	-	50
Finsure Domain Names Pty Ltd	Mortgage brokerage	30 June	Australia	-	50

23.3.1. Finsure Buyback During the Year

Cash consideration of $2.3 million was received for 30% of the entire issued share capital in Finsure Group held by the Group prior to the share buyback, reducing the Group's total shareholding in the Finsure Group from 50% to 28.6% after the buyback.

A net gain on disposal of $1.1 million was recognised relating to the Group's investment in Finsure and 1300 based on cash consideration of $2.3m received and disposal of its investment in 1300 of $1.2m (before transaction costs).

The Group will continue to recognise its retained 28.6% interest in the new Finsure Group as an investment in associate with a carrying amount of $nil.

The carrying amount will be subject to the future profitability of Finsure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

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24. Acquisition of Subsidiary

24.1. MERGER OF HOMELOANS LIMITED AND RESIMAC LIMITED

On 11 October 2016, the merger of Homeloans and RESIMAC was approved by shareholders of each company at an Extraordinary General Meeting. The transaction was announced to the Australian Stock Exchange on 13 October 2016. This is the effective date of the acquisition. Control was deemed to have been obtained on 13 October 2016 as:

- The Scheme was approved by all relevant parties;
- All conditions precedent detailed in the Scheme were either satisfied or waived;
- Even though the merged group Board was not appointed until 25 October 2016, RESIMAC had the right to appoint three of the six board members as of 13 October 2016; and
- During the period of time between the Scheme effective date and the implementation date (25 October 2016), Homeloans was substantially restricted in that management no longer had the power to make material decisions to effect the operations of the business and therefore this period of time more so reflected the administrative time required to implement the Scheme as opposed to continued control over the business of the pre-acquisition Homeloans management.

On 25 October 2016, Homeloans completed the legal acquisition of RESIMAC and its controlled subsidiaries by acquiring 100% of the share capital of RESIMAC in exchange for shares in Homeloans. Following the issue of new shares to RESIMAC, Homeloans now has 393,687,080 shares on issue and RESIMAC pre-acquisition shareholders have voting power of 72.5%. The acquisition is expected to deliver significant benefits including revenue and cost synergies.

Accordingly, under the terms of the merger:

- Homeloans became the legal parent of RESIMAC; and
- RESIMAC became the legal subsidiary of Homeloans.

24.2. ACCOUNTING AND DISCLOSURE IMPLICATIONS OF THE MERGER

Under the accounting standards the merger of Homeloans and RESIMAC has been accounted for as a business combination.

Accounting standards require that where two or more entities combine through an exchange of equity for the purposes of business combination, one of the entities must be deemed to be the acquirer. Given relative shareholdings post-merger, Board composition and RESIMAC size relative to Homeloans, RESIMAC is deemed to be the acquirer for accounting purposes. The implication of this reverse acquisition of Homeloans by RESIMAC are:

- Although the financial statements are issued under the name of Homeloans (the legal parent company), RESIMAC is deemed to be the parent company for accounting purposes;
- The 30 June 2017 full year information reflects the newly combined group of RESIMAC and Homeloans;
- The 30 June 2016 comparative financial information reflects the financial performance and financial position of RESIMAC only. RESIMAC comparative information is disclosed as RESIMAC is deemed to be the parent company for the purposes of accounting for the transaction; and
- Under accounting guidance, the consideration that RESIMAC is deemed to have paid for Homeloans is the market value of Homeloans equity at the date of the merger, which was $49,252,659. This consideration has been allocated to the fair values of Homeloans intangible and tangible assets, liabilities and contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE

for the year ended 30 June 2017

24.2.1. Reverse Acquisition Reserve

As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This account called 'Reverse acquisition reserve' is similar in nature to share capital and is not available for distribution. This equity account represents a net adjustment for the replacement of the legal parent's equity with that of the deemed acquirer.

Certain acquisition-related costs incurred by Homeloans prior to the acquisition of $2,150,691 have been included in the pre-acquisition results (pre-tax). There were costs of $85,316 in relation to the creation and listing of the new issued equity which has been offset against consolidated equity in the statement of financial position.

24.3. SUMMARY OF ACQUISITION

A summary of the acquisition is as follows:

	Note	$'000
Equity consideration		**49,253**
Fair value of identifiable net assets acquired		
Reported at HY17		**28,271**
Subsequent measurement of provision (net of tax)		**(350)**
Reported at FY17		**27,921**
Goodwill arising on acquisition		**21,332**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ GROUP STRUCTURE
for the year ended 30 June 2017

24.4. ASSETS ACQUIRED AND LIABILITIES ASSUMED AT DATE OF ACQUISITION

	Note	Fair Value $'000
Assets		
Cash and cash equivalents		**10,345**
Receivables [1]		**3,685**
Loans and advances [1]		**171,604**
Other financial assets		**66,957**
Plant and equipment		**711**
Total assets		**253,302**
Liabilities		
Trade and other payables		**5,672**
Current tax payables		**564**
Interest-bearing liabilities		**177,715**
Other financial liabilities		**29,170**
Derivative financial liability		**33**
Lease incentives		**100**
Deferred tax liabilities		**9,266**
Provisions		**2,861**
Total liabilities		**225,381**
Fair value of identifiable net assets acquired (of Homeloans at 13 October 2016)		**27,921**
Goodwill arising on acquisition [2]	10	**21,332**
Consideration transferred, satisfied in equity [3]		**49,253**

1 Carrying value of receivables approximates fair value and is reflective of the gross contractual amount receivable which is expected to be collected in full.
2 Existing goodwill: $13,242,557 plus new Homeloans goodwill $8,089,526.
3 No contingent consideration arrangements or indemnification assets have been recognised as a result of the transaction.

From the date of acquisition, Homeloans has contributed to $34,126,031 of revenue and $1,441,727 to the net profit before tax of the Group.

The goodwill is not deductible for tax purposes.

24.5. GOODWILL IMPAIRMENT TESTING

Subsequent to the acquisition accounting, goodwill has been subject to an impairment test for the period ended 30 June 2017. This will be undertaken at least annually, or if and when there are indicators that goodwill may be impaired.

24.6. TWELVE MONTH MEASUREMENT PERIOD

The accounting standards provide a measurement period for the acquisition accounting of up to 12 months following the acquisition date. This acknowledges the time required to gain access to and consolidate information for both entities and to make certain valuations as at the acquisition date.

24.6.1. Measurement of Contingent Liability

The initial accounting for the provision of a contingent liability as part of the reverse acquisition was incomplete and thus was determined provisionally. Due to better information being obtained during this measurement period, management have increased this provision by $500,000 pre-tax ($350,000 net of tax).

No provisionally determined amounts are included and the acquisition accounting has been finalised as of 30 June 2017. Final values are reported in this financial report.

24.7. 2016 HOMELOANS OUTSTANDING SHARE RIGHTS

At 30 June 2016, there were 2,520,384 share rights outstanding relating to prior years' LTI and STI Plans for Homeloans Limited KMP and selected employees.

At the discretion of the board, the vesting of the outstanding share rights was accelerated as a result of the completion of the merger between Homeloans and RESIMAC in October 2016.

Key Estimates

BUSINESS COMBINATION ACCOUNTING

The accounting acquisition on 13 October 2016 of RESIMAC and its controlled subsidiaries by Homeloans has been treated as a business combination with reverse acquisition accounting being applied. The accounting treatment required a detailed fair valuation of Homeloans which includes a number of judgments and estimates to arrive at the fair value. These estimates and judgments will specifically impact the amount of goodwill recognised.

These include the:

- transaction price used to determine the consideration transferred; and
- total fair value of existing and new identifiable assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ UNRECOGNISED ITEMS

for the year ended 30 June 2017

25. Commitments and Contingencies

Group as lessee	FY17 $'000	FY16 $'000
Operating and finance lease commitments		
Within one year	**2,555**	1,465
Greater than one year but not more than five years	**3,295**	1,511
	5,850	2,976

Group as lessor		
Operating lease commitments		
Within one year	**96**	-
	96	-

RECOGNITION AND MEASUREMENT

25.1. LEASE PAYMENTS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Payments made under operating leases are recognised in the profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

25.2. CAPITAL COMMITMENTS

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

25.3. CONTINGENT LIABILITIES

25.3.1. Lease Guarantees

The Group has provided guarantees in respect of the leases over its premises of $1,105,335 (FY16: $726,311). The directors were not aware of any other contingent liabilities as at the end of the financial year or arising since balance date.

26. Subsequent Events

26.1. FINANCIAL DIVIDEND DECLARED

The Board of Homeloans Limited declared a fully-franked final dividend of $0.0075 per share. The Record Date is 20 September 2017. The payment date will be 5 October 2017. The dividend has not been provided for in this financial report.

26.2. PAYWISE SHARE PURCHASE

Subsequent to balance sheet date, Homeloans completed the purchase of the minority shareholdings of 12% of the fully paid ordinary shares in Paywise Pty Limited (Paywise) on 4 September 2017. This will result in Paywise becoming a wholly owned subsidiary. The transaction has not been reflected in the 30 June 2017 accounts.

26.3. SHARE OPTIONS GRANTED

Subsequent to balance sheet date, an aggregate of 1,800,000 share options were granted on 18 August 2017 to the following senior management:

	Number of options granted	Number of ordinary shares under option
Mary Ploughman	900,000	900,000
Scott McWilliam	900,000	900,000

26.4. FUNDING PROGRAMMES

Subsequent to balance sheet date, the Group had a further prime issue under the Premier programme called Premier 2017-2 which is a domestic $750 million prime issue that settled on 3 August 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

27. Auditor's Remuneration

Fees of the auditors of the company for:	FY17 $'000	FY16 $'000
Audit or review of the financial statements		
Deloitte Touche Tohmatsu	**983,184**	665,000
	983,184	665,000
Non-assurance related services		
Deloitte Touche Tohmatsu		
▪ tax compliance	**133,261**	296,972
▪ other advisory services	**612,100**	110,623
▪ services in connection with reverse acquisition	**134,783**	243,324
	880,144	650,919
Total paid to auditors	**1,863,328**	1,315,919

27.1. NON-AUDIT SERVICES

The auditor of the Group is Deloitte Touche Tohmatsu (Deloitte). It is the Group's policy to employ Deloitte on assignments additional to its statutory audit duties, in compliance with the Group's independence policies, where Deloitte's expertise and experience with the Group are important.

The total non-audit services fees of $880,144 represents 47 per cent of the total fees paid or payable to Deloitte and related practices for the year ended 30 June 2017. During the year, Deloitte were engaged to provide due diligence and tax services in relation to the merger of Homeloans and RESIMAC.

Excluding these engagements, the non-audit services fees represented 40 per cent of the total fees paid or payable to Deloitte and related practices.

28. Related Party Transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

28.1. TRADING TRANSACTIONS

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

	Revenue received		Expenses paid	
	FY17 $'000	FY16 $'000	**FY17 $'000**	FY16 $'000
Joint ventures of Homeloans Limited [1]	**-**	-	**(3,688)**	(2,131)
Other related parties of Homeloans Limited [2]	**7,261**	-	**-**	(31)

1 Broker commission paid to Finsure Group companies and sponsorship fees.
2 Trail commission received from two funders who are major shareholders.

Sales to related parties occur at arm's length on commercial terms in the ordinary course of business in accordance with the terms and conditions outlined in the relevant commercial agreements with each party.

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	FY17 $'000	FY16 $'000	**FY17 $'000**	FY16 $'000
Joint ventures of Homeloans Limited [1]	**-**	10,434	**-**	-
Other related parties of Homeloans Limited [2]	**7,623**	9,670	**(9,838)**	(11,497)

1 All loans were repaid during the year.
2 Loans due from majority shareholder and related entities in Homeloans.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amount owed by related parties.

28.2. LOAN TO KMP

	FY17 $'000	FY16 $'000
Loan to KMP [1]	**-**	2,854

1 Ceased being a KMP in FY16. At FY17, there is currently an outstanding balance of $2,186,000.

The Group provided a loan to one of its former KMP with rates comparable to the average commercial rate of interest.

The loan to the KMP is secured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

28.3. LOANS FROM RELATED PARTIES

	FY17 $'000	FY16 $'000
Loan from a former KMP	-	500

The Group was provided a loan at a rate comparable to the average commercial rate of interest.

The loan was unsecured and was repaid in November 2016.

28.4. COMPENSATION OF KMP

The remuneration disclosures of directors and other members of KMP during the year are provided in sections one to nine of the remuneration report on pages 24 to 34 of this financial report designated as audited and forming part of the directors' report.

The remuneration disclosures for FY17 is for Homeloans KMP only as presented in the Remuneration report. For FY16, the remuneration disclosures are for RESIMAC KMP only.

KMP compensation	FY17 $'000	FY16 $'000
Short-term benefits	**1,639,049**	4,617,769
Post-employment benefits	**95,946**	279,096
	1,734,995	4,896,865

The remuneration of directors and KMP is determined by the Remuneration and Nomination Committee having regard to the performance of individuals and market trends.

28.5. OTHER RELATED PARTY TRANSACTIONS

In addition to the above, Homeloans Limited performed certain administrative services for one of the Group's joint ventures. No management fee was charged or paid during the year (FY16: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

29. Parent Disclosures

The table represents the legal parent entity, which is Homeloans Limited and not the accounting parent, which is RESIMAC.

Statement of financial position	FY17 $'000	FY16 $'000
Assets		
Current	**23,276**	20,637
Non-current	**183,826**	52,118
	207,102	72,755
Liabilities		
Current	**36,551**	23,741
Non-current	**14,271**	16,932
	50,822	40,673
NET ASSETS	**156,280**	32,082
Equity		
Issued capital	**174,762**	39,391
Reserves	**496**	1,333
Accumulated losses	**(18,978)**	(8,642)
	156,280	32,082
Attributable to members of the parent:		
(Loss)/profit after tax	**(5,216)**	3,697
Total comprehensive income for the period	**(5,216)**	3,697

29.1. GUARANTEES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At 30 June 2017, there are no financial guarantees, contingent assets or contingent liabilities (FY16: nil).

29.2. ACCOUNTING POLICIES

The accounting policies of the parent entity, which have been applied in determining the financial information shown above, are the same as those applied in the consolidated financial statements except as set out above. The significant accounting policies relating to the Group are used throughout this financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

30. Other Accounting Policies

30.1. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

a) New and amended standards adopted by the Group

In the opinion of management there are no standards or amendments mandatorily applicable for the current reporting period which have had any impact on the current period or any prior period, or are likely to affect future periods.

b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Group.

The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 *Financial Instruments*: effective for annual reporting periods beginning on or after 1 January 2018.

AASB 9 replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139.

Unless early adopted the standard is effective for the 30 June 2018 year end. The Group intends to report under AASB 9 for the first time in the financial report at 30 June 2018.

Management has put an AASB 9 cross-functional project team in place to assess the implications of the new standard and to implement the new standard to ensure appropriate and consistent application across the Group's diverse range of financial activities.

As the Group has not concluded the initial impact assessment and as the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably estimate the financial impact on the financial statements.

We have, however, outlined the major changes under the standard below and where we believe the Group will be most impacted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

Impairment

AASB 9 brings about a move from an incurred loss model to an expected loss model. This model will be applicable to the majority of the Group's financial assets. Under the old model losses are recognised when incurred. Under the new model, at a minimum, affected assets will record an estimate of losses currently incurred and those expected to be incurred within the following 12 months. Additionally for the majority of financial assets which have experienced a significant increase in credit risk since initial recognition, a lifetime expected loss will be recognised.

The introduction of a lifetime loss model will introduce significant areas of complexity (such as the requirement to use forward-looking information) and judgment (such as the interpretation of "significant increase in credit risk").

Due to the complexities and areas of judgment the Group expects most of the time spent on the project to be in this area. The Group also expects this aspect of the new standard to have the most significant impact on the results of the Group.

Classification and Measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on:

- the business model within which the assets are managed; and
- whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest.

An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

The majority of the Group's financial assets are not expected to be impacted by the changes and any impact is expected to be immaterial for the Group.

Hedging

AASB 9 introduces a more flexible hedge accounting model which is better aligned to the economic realities and risk management activities undertaken across both Homeloans and the broader financial services sector.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

Adoption of the new hedge accounting model is optional and current hedge accounting under AASB 139 can continue to be applied until the IASB completes its accounting for "dynamic risk management" project.

The Group has determined that, if implemented today, the impact of the new standard would be negligible due to the nature of the Group's current hedging activities.

AASB 15 *Revenue from contracts with customers*: effective for annual reporting periods beginning on or after 1 January 2018

AASB 15 replaces the existing revenue recognition guidance in AASB 18: *Revenue* and AASB 111: *Construction Contracts*.

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Group is in the process of assessing the full impact of the application of AASB 15. As the effect the new standard could have on the financial results of the Group will change as the circumstances of the Group change up to the point of initial adoption, it is not yet practical to reliably conclude on the final impact on the financial statements.

AASB 16 *Leases*: effective for annual reporting periods beginning on or after 1 January 2019

AASB 16 introduces a new lease accounting model for lessees that requires lessees to recognise all leases on balance sheet (except for short-term leases and low value assets) and recognise the amortisation of lease assets and interest on lease liabilities in the income statement. It will be mandatorily effective for reporting periods beginning on or after 1 January 2019.

The Group is in the process of assessing the impact of the application of AASB 16. The financial impact on the financial statements has not yet been determined.

There have been no other new or amended accounting standards during the reporting period ended 30 June 2017 that have had or may have a significant impact on the financial results of the Group.

30.2. 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 which 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.

30.3. RECLASSIFIED COMPARATIVE INFORMATION

To align the policies of the consolidation group, the classification of a number of items in the:

- Consolidated statement of profit or loss and other comprehensive income;
- Consolidated statement of financial position; and
- Consolidated statement of cash flows,

as presented in the comparative period RESIMAC group accounts has been amended.

These changes include:

30.3.1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

- **Net fee income: $7,552,000**
  Previously disclosed as a separate line, has now been disclosed within the following lines:
  - Fee and commission income: $3,137,000; and
  - Other income: $4,561,000; and
  - Other expenses: ($146,000).
- **Mortgage commission expense: ($7,984,000)**
  Previously disclosed as a separate line, has now been included within the following lines:
  - Fee and commission expenses: ($11,084,000);
  - Other expenses: ($111,000); and
  - Fee and expenses commission income: $3,211,000.
- **Mortgage servicing expense: ($7,000)**
  Previously disclosed as a separate line, has now been included within the Fee and commission expense line.
- **Other financing costs: ($2,764,000)**
  Previously disclosed as a separate line, has now been included within the Fee and commission expense line.
- **Other non-interest (expense)/income: ($455,000)**
  Previously disclosed as a separate line, has now been included within the following lines:
  - Other expenses: ($1,229,000); and
  - Other income: $774,000.
- **Operating expenses: ($47,815,000)**
  Previously disclosed as separate lines, has now been included within the following lines:
  - Employee benefits expense: ($28,293,000); and
  - Other expenses: ($19,522,000).
- **Bad debt expense: ($2,153,000)**
  This continues to be disclosed as a separate line but has been renamed loan impairment.
- **Share of profit/(losses) from jointly controlled entities: $742,000**
  This continues to be disclosed as a separate line but has been renamed Share of profit from joint ventures.
- **Income tax expense: ($3,455,000)**
  This continues to be disclosed unamended as a separate line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS \ OTHER

for the year ended 30 June 2017

30.3.2. Consolidated Statement of Financial Position

- **Derivative Financial Assets: $45,998,000**
  Previously disclosed under Other financial assets has now been included in its own separate line.

- **Prepayments: $721,000**
  Previously disclosed under Other assets, has now been included within Trade and other receivables.

- **Reinsurance claim receivable: $4,321,000**
  Previously disclosed as a separate line, has now been included within Other assets.

  The changes above have not impacted total assets.

- **Reinsurance claim reserve**
  Reinsurance claim reserve, ($4,321,000) was previously disclosed as a separate line, has now been included within Other liabilities.

  This change has not impacted total liabilities.

30.3.3. Consolidated Statement of Cash Flows

- **Net cash flows from loan settlements and repayments**
  Payments of net loans to borrowers has been moved from cash flows from investing activities to cash flows from operating activities and recorded on a net basis in accordance with accounting standards.

  The impact of this is a net movement of $778,692,000.

- **Payments to suppliers and employees**
  - Sacrifice fee income received

    Sacrifice income received of $3,477,000 has been moved from other income.

    This change has not impacted total cash flows from operating activities.

  - Cash flows from loans and advances made to related parties

    This has now been included within cash flows from investing activities.

    This impact is a movement of $3,090,000 net payment from financing activities to investing activities.

  - Swap payments

    This has been moved from payments to suppliers and employees in cash flows to operating activities to cash flows from financing activities.

    Swap payments of $1,273,000 is now separately disclosed within cash flows from financing activities.

DIRECTORS' DECLARATION

Homeloans Limited and its Controlled Entities

The directors declare that:

a. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

b. in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as stated in the financial statements;

c. in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity and the company; and

d. the directors have been given the declarations required by s295.A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors

Robert Scott
Independent non-executive Chairman

Sydney
28 September 2017

INDEPENDENT AUDITOR'S DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Homeloans Limited
Level 9
45 Clarence Street
SYDNEY NSW 2000

28 September 2017

Dear Board Members

Homeloans Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Homeloans Limited and its controlled entities ("Homeloans Limited").

As lead audit partner for the audit of the financial statements of Homeloans Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Delarey Nell
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2017

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Members of Homeloans Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Homeloans Limited (the "Entity") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017,the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of their financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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for the year ended 30 June 2017

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Accounting for the reverse acquisition of Homeloans Limited Homeloans Limited acquired 100% of the share capital of RESIMAC Limited on 13 October 2016 as disclosed in Note 24. Accounting for the reverse acquisition gives rise to the following key areas of management judgement: • Assessment of the transaction and classification as a Reverse Acquisition, • Determination of the acquisition date, • Determination of the fair value of identifiable net assets acquired, and • The fair valuation of the equity consideration transferred.	Our procedures included, but were not limited to: • Assessing the scheme implementation agreement, board minutes, and management paper on the transaction "Acquisition accounting – Resimac & Homeloans merger" for appropriateness of managements key judgements, • Obtaining the valuation reports from management and assessing the methodology and results of the valuation work performed, • Assessing the independence, competence and objectivity of management's experts, • Evaluating the purchase price allocation performed by management including the assessment of the fair values applied to the assets and liabilities acquired, and • Evaluating the appropriateness of adjustments made to equity as a result of the reverse acquisition. We have also assessed the appropriateness of the disclosures in Note 24 to the financial statements.
Impairment of goodwill As at 30 June 2017 the Group's goodwill balance totals $21.6million which comprises goodwill relating to the acquisition of Homeloans Limited as disclosed in Note 10. Our assessment of the recoverability of goodwill requires significant judgement due to the assumptions and estimates used in preparing a discounted cash flow model ('value in use'), including determination of: • Identification of Cash Generating Units ("CGU's"), • Future cash flows for the CGU's, • Discount Rates, and • Terminal value growth rates.	Our procedures included, but were not limited to: • Evaluating the appropriateness of management's identification of the Group's CGUs to which the goodwill is allocated, • Evaluating management's controls over the impairment assessment process for the identification of indicators of impairment, • Assessing the reasonableness of cash flow projections and assessing growth rates against external economic and financial data and the Group's own historical performance, • Engaging our valuation specialists to assess the key assumptions and methodology used by management in the impairment model, in particular the discount rate, the cost of debt and the terminal growth rate, • Evaluating the value in use estimates determined by the Group against its market capitalisation, and • Testing the mathematical accuracy of the impairment model. We have also assessed the appropriateness of the disclosures in Note 10 to the financial statements.
Future trailing commissions As at 30 June 2017 the net present value of future trailing commissions receivable and payable by the Group is $62.0 million and $28.3 million respectively as	Our procedures included, but were not limited to: • Evaluating the key controls relevant to the approval and determination of the net present value of future trail commissions,

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2017

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disclosed in Note 7 and 13. The determination of the net present value of trailing commissions required management to exercise judgement with regard to the selection of the discount rate, run off rates and percentage of commissions paid to brokers applied to the model.	• Challenging management's assumptions applied, including discount rate, loan book run off and percentage of commissions paid to brokers in determining the value of future trail commissions by: - Comparing assumptions to the historical loan book performance, - Benchmarking assumptions against market peers and external market data, and - Assessing management's assumptions against industry and economic indicators. • Assessing inputs in the model with reference to underlying records, contracts and agreements, and • Testing the mathematical accuracy of the model. We have also assessed the appropriateness of the disclosures in Notes 7 and 13 to the financial statements.
Provisions for impairment of loans to customers As at 30 June 2017, the Group has a loan loss impairment provision of $5.5m as disclosed in Note 6. The Group determines specific provisions on a loan by loan basis based on a number of pre determined criteria as set out in their lending policies. Significant judgement is required in the application of assumptions, such as historic loss rates and recoverability of loans.	Our procedures included, but were not limited to: • Evaluating the controls relevant to the approval, recording and monitoring of loans and advances to customers, • Evaluating the monitoring controls over the determination and review of both specific impairment provisions and the collective impairment models, • Testing a sample of the source loss data used in the collective impairment model and a sample of the calculations within that model for mathematical accuracy, • Evaluating the appropriateness of managements assumptions in the collective provision model against historic loan loss experience, across product and geographies as well as external data sources, • Assessing loan data for indicators of impairment to determine whether the specific provision recorded is appropriate, and • Testing on a sample based the specific provision focusing on: - Expected future cash flows from customers, - The availability of Lenders Mortgage Insurance, and - The realisation of collateral held. • Performing a retrospective review of the historic loan loss information for both the individual and collective impairment provisions. We have also assessed the appropriateness of the disclosures in Note 6 to the financial statements.

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2017

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Entity 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial

INDEPENDENT AUDITOR'S REPORT

for the year ended 30 June 2017

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report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages13 to 23 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of the Homeloans Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Entity 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

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Delarey Nell
Partner
Chartered Accountants
Sydney, 28 September 2017

CORPORATE
SOCIAL RESPONSIBILITY

GARVAN INSTITUTE

The Garvan Institute of Medical Research helps develop future preventions, treatments and cures for major diseases. Our sponsorship finances the 'Edgy Ideas' award, a $25,000 grant to develop and test an innovative idea. The 2016 winner, Dr Samantha Oakes, had an idea to trick cancer cells into thinking they're infected with a virus such that they will be recognised by the immune system.

THE STATION

Weekly by rotation, our staff volunteer at the Station to assist the staff with serving of lunches. In addition, we run a food drive throughout the year with our staff bringing in grocery items we package together and provide to the Station Drop-In Centre for distribution to people who visit.

The Station is a not-for-profit whose mission is to provide a range of services for people who are having difficulty attaining and sustaining adequate and secure accommodation, health status, personal autonomy and dignity.

THE ART GALLERY NSW

Over the past 5 years RESIMAC has sponsored the Art Gallery Society's Art Appreciation Lecture Series.

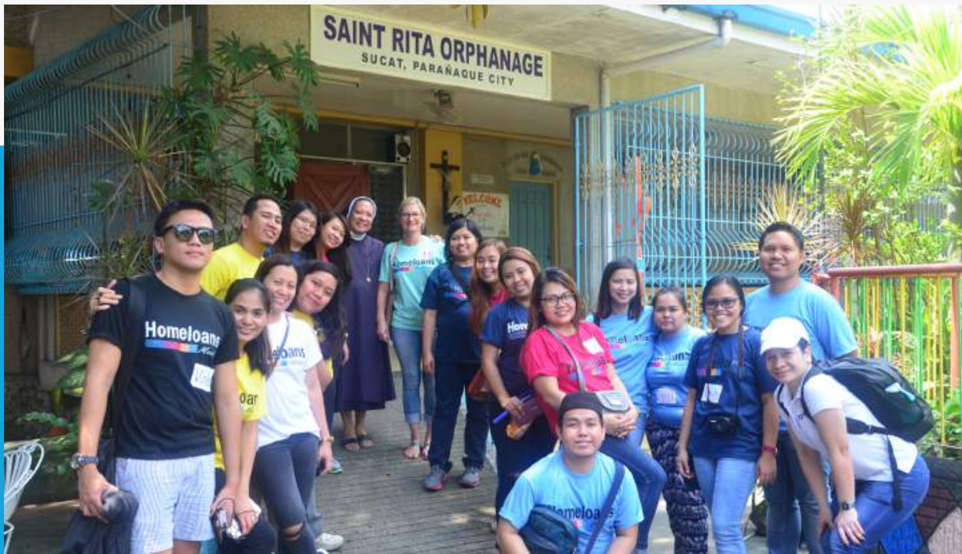
Sponsors of the Art Gallery Society play an important role by supporting the Art Gallery of NSW to help raise funds to purchase works of art for the Gallery's permanent collections.

MANILA ORPHANAGES

It is extremely important to the business and our Manila office staff that we support local charities. Our staff have chosen two orphanages this year – The Gentle Hands Orphanage and the St. Rita Orphanage. Our staff visit the orphanages and provide lunch, play fun activities and provide school kits, sporting goods, nappies, vitamins and toys to the children.

Gentle Hands Orphanage is a humanitarian organisation in Metro Manila, which is on the front lines of rescue and rehabilitation for children and youth.

St. Rita Orphanage, originally known as the Home for Children, is a child caring agency servicing children who are abandoned, neglected or surrendered by their biological parents.



ENVIRONMENTAL

Carbon Conscious: At Homeloans we aim to conduct our business in a responsible fashion. In order to achieve this we have teamed up with Carbon Conscious an environmental company that produces carbon credits through carbon farming. We are taking action towards countering greenhouse gases in our atmosphere by planting a Mallee Eucalypt tree for each new Homeloans-branded loan settled. The Mallee Eucalypt is a native species adapted to the growing conditions of the Australian Wheatbelt region where they are planted. Over its growing life, the Mallee Eucalypt will store carbon from the atmosphere.

This activity is not something that is factored into the pricing of our home loans and it does not result in any additional expense for our customers. Rather, it is our way of contributing to a more sustainable environment and exercising our corporate social responsibility. To date we have planted 19,651 trees which over their lifetime will offset 3.12M kg of carbon from the atmosphere.

Earth Hour: Homeloans participates in Earth Hour every March in which the business ensures that all lights are off for one hour to help reduce the carbon footprint.

SHAREHOLDER
INFORMATION

Additional information required by the ASX and not disclosed elsewhere in this report is set out below. The information is current as at 18 September 2017.

A) NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Share Capital

393,687,080 fully paid ordinary shares are held by 783 individual shareholders.

B) VOTING RIGHTS

All issued ordinary shares carry one vote for each member present at the meeting on a show of hands and on a poll each member is entitled to one vote for every ordinary share held.

C) DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

The number of equity securities by size of holding is set out below:

Range	Total holders	Units	% Units
1 to 1,000	78	43,603	0.01
1,001 to 5,000	290	774,896	0.20
5,001 to 10,000	111	848,795	0.22
10,001 to 100,000	233	8,161,151	2.07
100,001 and over	71	383,858,635	97.50
Total	783	393,687,080	100.00

Unmarketable Parcel	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $0.4450 per unit	1,124	93	59,456

D) SUBSTANTIAL SHAREHOLDERS

The names of the substantial shareholders of the company and the number of equity securities in which they have a relevant interest as disclosed in substantial shareholding notices given to the company are set out below:

Size of holdings	No. of shares	%
Somers Limited	231,922,076	58.91
Macquarie Bank Limited (Strategic Investments A/C)	22,418,810	5.69

E) TWENTY LARGEST SHAREHOLDERS

The 20 largest shareholders of ordinary shares on the company's register at 18 September 2017 were:

Size of holdings	No. of shares	%
JP Morgan Nominees Australia Limited	232,343,377	59.02
Macquarie Bank Limited (Strategic Investments A/C)	22,418,810	5.69
National Australia Bank Limited	18,983,030	4.82
Motrose Pty Ltd	15,277,905	3.88
MLC Holdings Limited	12,594,846	3.20
Warren John McLeland	11,440,055	2.91
Redbrook Nominees Pty Ltd	9,517,322	2.42
Tico Pty Ltd (TA Holmes Family Fund A/C)	8,123,944	2.06
Cuscal Limited	6,791,115	1.73
Peterlyn Pty Ltd (Salmon Family Account)	5,977,990	1.52
Hartley Phillips Securities Pty Ltd (Hartley Phillips Inv Tst A/C)	4,622,318	1.17
Bond Street Custodians Limited (CPCPL - V73544 A/C)	4,157,016	1.06
RSJSDS Pty Ltd (Salmon Family S/F A/C)	4,055,359	1.03
Top 4 Pty Ltd (The Foundation Inv S/F A/C)	3,446,312	0.88
Westpac Banking Corporation	2,493,130	0.63
Ferber Holdings Pty Ltd (Scott Super Fund A/C)	1,661,497	0.42
Redbrook Nominees Pty Ltd	1,400,000	0.36
Redbrook Nominees Pty Ltd	1,144,567	0.29
Mr Scott Bruce Charles McWilliam	993,493	0.25
Credit Suisse Holdings Australia Limited	969,872	0.25
Total	368,411,958	93.58

CORPORATE INFORMATION

Registered Office and Corporate Office

Level 9, 45 Clarence Street
SYDNEY NSW 2000

P: +61 2 9248 0300
F: +61 2 9248 2304

E: info@homeloans.com.au
Customer Enquiries: 13 38 39

W: **homeloans.com.au**

Non-Executive Directors

Robert Scott, Chairman
Chum Darvall, Deputy Chairman
Susan Hansen
Michael Jefferies
Warren McLeland
Robert Salmon

Company Secretary

Peter Fitzpatrick

Share Registry

Computershare Investor Services Pty Limited

Address

Level 11, 172 St Georges Terrace
PERTH WA 6840

P: 1300 850 505
F: +61 8 9323 2033

E: web.queries@computershare.com.au

W: **investorcentre.com.au**

To view the 2017 annual report, shareholder and company information, new announcements, background information on Homeloans businesses and historical information, visit the Homeloans website at **homeloans.com.au**

> *“Homeloans is proud to be Carbon Conscious, planting a tree for every Homeloans loan settled.*

INVESTOR INFORMATION

MANAGING YOUR SHAREHOLDING

The company's share registry is managed by Computershare Investor Services Pty Limited (Computershare).

The Investor Centre website is the fastest, easiest and most convenient way to view and manage your shareholding. Investor Centre enables a shareholder to:

- view the company share price;
- change your banking details;
- change your address (for non-CHESS sponsored holdings);
- update your dividend instructions;
- update your Tax File Number (TFN), Australian Business Number (ABN) or exemption;
- select your email and communication preferences; and
- view your transaction history.

When communicating with Computershare or accessing your holding online you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

Address

Level 11, 172 St Georges Terrace
PERTH WA 6000

Postal Address

GPO Box D182
PERTH WA 6000

P: 1300 850 505
F: +61 8 9323 3033

W: **investorcenter.com/contact**

Tax File Numbers

While it is not compulsory to provide a Tax File Number ('TFN'), if shareholders have not provided a TFN and Homeloans pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate plus the Medicare Levy.

INFORMATION ON HOMELOANS

Homeloans Website

Up-to-date information on the company can be obtained from the company's website: **homeloans.com.au**

Securities Exchange Listing

The company's shares are listed on the ASX and the Home Exchange is Sydney. Ordinary shares are traded under the code, HOM.

Share prices can be accessed from major Australian newspapers, the Homeloans website or at **asx.com.au**

Homeloans

Homeloans.com.au

RESIMAC

State Custodians

paywise
salary packaging

iMortgage.com.au

Homeloans

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