



HOMELOANS LIMITED

Financial Report

for the year ended 30 June 2018

ABN: 55 095 034 003

ASX CODE: HOM

TABLE OF CONTENTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018 - HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

	Page
Directors' report	
Directors' report.....	4
Remuneration report (audited).....	14
Financial statements	
Consolidated statement of profit or loss.....	26
Consolidated statement of comprehensive income.....	27
Consolidated statement of financial position.....	28
Consolidated statement of changes in equity.....	29
Consolidated statement of cash flows.....	30
Notes to the consolidated financial statements	
About this report.....	31
Segment information.....	33
Key numbers	
1. Income.....	36
2. Expenses.....	38
3. Income tax.....	40
4. Cash and cash equivalents.....	45
5. Trade and other receivables.....	46
6. Loans and advances.....	47
7. Other financial assets.....	50
8. Plant and equipment.....	52
9. Other assets.....	53
10. Goodwill and intangible assets.....	53
11. Trade and other payables.....	56
12. Interest-bearing liabilities.....	57
13. Other financial liabilities.....	59
14. Other liabilities.....	59
15. Provisions.....	60
Capital	
16. Capital management.....	62
17. Dividends.....	63
18. Issued capital and reserves.....	64
19. Earnings per share.....	66
Risk	
20. Financial assets and financial liabilities.....	68
21. Financial risk management.....	73
Group structure	
22. Subsidiaries.....	84
23. Associates and joint ventures.....	88
24. Acquisition of subsidiary.....	90
Unrecognised items	
25. Commitments and contingencies.....	93
26. Subsequent events.....	94

TABLE OF CONTENTS

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018 - HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

Other	
27. Auditor's remuneration.....	95
28. Related party transactions.....	96
29. Parent disclosures.....	98
30. Share-based payments.....	99
31. Other accounting policies.....	102

Signed reports	
Directors' declaration.....	104
Independent auditor's declaration.....	105
Independent auditor's report.....	106

DIRECTORS' REPORT

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 2018. 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 Cholmondeley (Chum) Darvall, AM

Chairman since November 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 degree, is a Senior Fellow of the Financial Services Institute of Australia and a Fellow of the Australian Institute of Company Directors.

Special responsibilities

- Chairman of Homeloans Limited (appointed 13 November 2017)
- Chair of the Remuneration and Nomination Committee (appointed 21 February 2018). Member since 24 August 2017
- Member of the Risk and Compliance 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 of experience including a Big Four Accounting firm and an investment bank (financial analysis and risk assessment). Susan is a Principal of a financial training organisation based in New Zealand.

Other listed directorships (last three years)

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

Special responsibilities

- Chair of the Audit Committee (appointed 10 November 2016)
- Member of the Remuneration & Nomination Committee (appointed 10 November 2016)

- Member of the Risk & Compliance Committee (appointed 10 November 2016)
- Chair of RESIMAC NZ Home Loans Limited

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 (resigned January 2018)
- Independent Non-executive Chairman of Pantoro Limited (since October 2016)

Special responsibilities

- Member of the Remuneration & Nomination Committee (appointed 21 February 2018). Previous Chair 10 November 2016 to 21 February 2018
- Member of the Audit Committee (appointed 10 November 2016)

Mr Warren McLeland

Non-Executive Director since October 2016

Warren is a former stockbroker and investment banker with over 35 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)

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

Special responsibilities

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

Mr Duncan Saville

Non-Executive Director since November 2017

Duncan is a Chartered Accountant and an experienced non-executive director. He is chairman of ICM Limited, an international fund manager, and a non-executive director of Somers Limited, the controlling shareholder of Homeloans Limited. He is a fellow of the Institute of Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

Other listed directorships (last three years)

- Non-executive director of both Somers Limited and West Hamilton Holdings, incorporated in Bermuda (since 2012)
- Former non-executive director of Infratil Limited, incorporated in New Zealand (retired 24 August 2016)
- Former non-executive director of Touchcorp Limited, incorporated in Bermuda (retired 30 August 2017)
- Former non-executive director of Cue Energy Resources Limited and New Zealand Oil and Gas Limited, incorporated in New Zealand (resigned from both on 14 December 2017).

Special responsibilities

- Member of the Remuneration & Nomination Committee (appointed 21 February 2018).

Mr Robert Scott

Independent Non-Executive Director since November 2000 (Resigned as Chairman on 13 November 2017)

Rob is a Chartered Accountant and former international partner with major global accounting firms with over 35 years experience in corporate structuring and taxation planning. He has served as a Chairman and as a non-executive director with various publicly listed resource companies with operational experience in Australia, USA and Asia and has a strong focus on project governance, audit and risk management.

Other listed directorships (last three years)

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

Special responsibilities

- Member of the Audit Committee (appointed 10 November 2016)
- Member of the Risk and Compliance Committee (appointed 21 February 2018)

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 Robert Salmon – resigned 13 November 2017

Company Secretary

Mr Peter Fitzpatrick

Since October 2016

Peter 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 and the Financial Services Institute of Australasia.

Directors' shareholdings

The following table sets out each director's relevant interest in shares and rights of the company of a related body corporate as at 30 June 2018:

Directors	Fully paid ordinary shares	Number of rights over ordinary shares
DARVALL, Chum	1,428,973	Nil
HANSEN, Susan	103,270	Nil
JEFFERIES, Michael	669,774	Nil
MCLELAND, Warren	11,814,190	Nil
SAVILLE, Duncan	248,794,304	Nil
SCOTT, Robert	2,226,629	Nil

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

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

An aggregate of 1,800,000 share options were granted on the 18th August 2017 to the following senior management:

	Number of options granted	Number of ordinary shares under option
MCWILLIAM, Scott	900,000	900,000
PLOUGHMAN, Mary	900,000	900,000

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

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 was 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.

As summarised in the table below, the consolidated financial statements for the year ended:

- 30 June 2018 (FY18), include the combined results of both RESIMAC and Homeloans for twelve months; and
- 30 June 2017 (FY17), under reverse acquisition accounting principles, include the results of RESIMAC for the twelve months and Homeloans for the period from 13 October 2016 to 30 June 2017.

	FY18	FY17
	12 months to 30 June 2018	12 months to 30 June 2017
Statement of profit or loss and other comprehensive income	RESIMAC + Homeloans	RESIMAC + Homeloans 13 October 2016 – 30 June 2017
Statement of changes in equity	RESIMAC + Homeloans	RESIMAC + Homeloans 13 October 2016 – 30 June 2017
Statement of cash flows	RESIMAC + Homeloans	RESIMAC + Homeloans 13 October 2016 – 30 June 2017
	FY18	FY17
	As at 30 June 2018	As at 30 June 2017
Statement of financial position	RESIMAC + Homeloans	RESIMAC + Homeloans

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

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 year, 9 board meetings, 5 Audit, 4 Risk and Compliance and 4 Remuneration and Nomination committee meetings were held.

Director	Committees							
	Board Meetings		Audit		Risk and Compliance		Remuneration and Nomination	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
DARVALL, Chum	9	9	-	-	4	4	2	2
HANSEN, Susan	9	9	5	5	4	4	4	4
JEFFERIES, Michael	9	9	5	5	-	-	4	4
MCLELAND, Warren	9	9	3	3	4	4	4	4
SAVILLE, Duncan	6	6	-	-	-	-	2	2
SALMON, Robert	4	4	-	-	-	-	2	2
SCOTT, Robert	9	9	5	5	2	2	-	-

(A) Number of meetings eligible to attend.

(B) Number of meetings attended.

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

Results and dividends

The information appearing on pages 9 to 13 forms part of the Directors' Report for the financial year ended 30 June 2018 and is to be read in conjunction with the following information:

	FY18 \$'000	FY17 \$'000
Profit		
Profit attributable to ordinary equity holders of the parent ¹	25,320	15,780
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 2018:		
(a) out of the profits for the year ended 30 June 2017 and retained earnings on the fully-paid ordinary shares:		
<ul style="list-style-type: none">fully-franked final dividend of 0.75 cents (FY16: 2.0 cents ²) per share paid on 5 October 2017.	2,953	2,165
(b) out of the profits for the half-year ended 31 December 2017 and retained earnings on the fully-paid ordinary shares:		
<ul style="list-style-type: none">fully-franked final dividend of 0.9 cents (HY17: 0.75 cents) per share paid on 9 April 2018.	3,587	2,953
(c) out of the profits for the full year ended 30 June 2018 and retained earnings on the fully-paid ordinary shares:		
<ul style="list-style-type: none">fully-franked final dividend of 0.9 cents (FY17: 0.75 cents) per share.	3,594	2,953
The Company's Dividend Reinvestment Plan (DRP) was applied to the interim and final dividend.		

1. Refer to page 7 and Note 24 for the impact of the merger on the consolidated financial statements.

2. 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 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 New Zealand. The Group applies its detailed knowledge of borrowers to develop new products that address unmet demand;
- *Distribution:* Distributing loans in Australia and New Zealand 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 under the RESIMAC name, the Group is an experienced issuer in the global and domestic term securitisation markets;
- *Mortgage management:* Servicing borrowers needs across multiple channels;
- *Risk management:* Operating with a holistic risk management and governance framework; and
- *Collections management:* Specialised collections processes based on deep experience, analytical capabilities and a solution-based approach to customer management.

Debt funding

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

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

- *Corporate debt facility:* 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;
- *Term securitisations:* Loans that are initially funded via a warehouse facility can be pooled together and refinanced by being sold to new funding vehicles that issue limited-recourse independently rated asset-backed securities to institutional investors in multiple jurisdictions; 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. The net trail commission from these loans are recognised on the Balance Sheet and recognised in the Profit or Loss over the life of the loan.

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 and corporate debt. The Group depends on these sources to fund mortgage originations and therefore faces funding risks which could lead to funding on less favourable terms;
- *Capital and liquidity requirements:* The Group is required to maintain sufficient liquidity levels under AFSL requirements.

A risk exists 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:* The Group is 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

DIRECTORS' REPORT

HOMELoANS LIMITED AND ITS CONTROLLED ENTITIES

licensing regimes, the revocation of existing licences, an inability to renew or receive necessary licences or a change in capital requirements could have a material adverse effect on the Group's business, operating and financial performance; and

- *Downturn in the macroeconomic environment:* A material downturn, a sustained outbreak of higher inflation, shocks to the financial system, a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in borrowers' 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

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

- opportunity to grow volume 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 diversification opportunities in Australia and New Zealand; and
- capitalising on the Group's unique position as a non-bank lender with customers favourably viewing the Group as an alternative to the major lenders.

2. Growth through acquisition

- Management has demonstrated a strong track-record in identifying and executing profit accretive acquisitions in targeted markets that are consistent with the Group's strategy; and
- The Group expects that it will be able to capitalise on opportunities 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.

Review of operations

The Group generated a net profit after tax (NPAT) of \$25,331,920 for the year ended 30 June 2018. To reflect the Group's normalised earnings the NPAT has been adjusted to separate one-off items, which are included in the result for the twelve months to 30 June 2018.

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	FY18 \$'000
Statutory NPAT	25,332
Write-off of investment in eChoice	926
Normalised NPAT	26,258

Total revenues and other income of \$388,518,920 increased 23% on prior year.

Net interest income increased by 24% to \$102,535,033

Operating expenses decreased by 2% but the previous year included the merger transaction and restructure costs. After allowing for these, normalised operating expenses increased by 5%, which reflects a full twelve months' of the combined Group's cost base whereas the previous corresponding year contained eight and a half months on a merged basis.

Loan impairment expense, including both specific and collective related, increased by 22% to \$1,623,312, however remains low in absolute terms.

Total mortgage settlement flows across the Group's combined distribution channels (i.e. both principally funded and non-principally funded) were \$4.3 billion, up 19% on the previous corresponding period (PCP).

- Settlements of principally funded lending of \$3.6 billion up 39% on the PCP; and
- Settlements of the non-principally funded portfolio was \$0.7 billion, down 30% on the PCP reflecting the shift in focus to growing the principally funded portfolio.

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

The highlights of the Group's financial position and the assets under management at 30 June 2018 include:

- Principally funded loans and advances to customers increased 30% on the PCP to \$8.6 billion; and
- Non-principally funded portfolio was \$3.5 billion, down 3% on the PCP.

Combined these make up the total assets under management portfolio of \$12.1 billion.

The Group's net assets increased by 15% from 30 June 2017, largely attributable to underlying profit growth.

Funding programmes

- The RESIMAC Premier Series 2017-2 transaction was settled on 3 August 2017 and is a domestic Prime issue with a total issuance size of \$750 million.
- The RESIMAC Bastille Series 2017-1NC transaction was settled on 26 October 2017 and is a domestic non-conforming issue with a total issuance size of \$750 million.
- The RESIMAC Versailles 2017-1 transaction was settled on 16 November 2017 and is a New Zealand Prime and non-conforming issue with a total issuance size of NZ\$250 million.

This was the first issue in New Zealand for Homeloans in three years and reflects the growth in the New Zealand operations.

- The RESIMAC Premier Series 2017-3 transaction was settled on 12 January 2018 and is a Prime issue with a total issuance size of \$1 billion.
- The RESIMAC Premier Series 2018-1 transaction was settled on 24 May 2018 and is a multi-currency Prime issue with a total issuance size of \$750 million equivalent.

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 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.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred.

Subsequent events

Final dividend declared

The Board of Homeloans Limited declared a fully-franked final dividend of \$0.009 per share. The Record Date is 20 September 2018. The payment date will be 12 October 2018. The dividend has not been provided for in this financial report.

Athena investment

On 31 July 2018, the Company invested \$2 million for a 4.26% stake in Athena Financial Pty Ltd.

Finsure/Goldfields Money

Goldfields Money (ASX: GMY) shareholders voted in favour of the merger with Finsure on 7 September 2018. Goldfields Money will acquire the shares in Finsure, and issue 15,385,000 new fully paid ordinary shares at an issue price of \$1.30 per share. The new shares commenced trading on the ASX on the 17 September 2018.

The transaction resulted in the Company's 16.2% investment in Finsure, converted to a 5.05% share in GMY on a fully diluted basis.

Funding programmes

The RESIMAC Bastille Series 2018-INC transaction was settled on 16 August 2018 and is a multi-currency non-conforming issue with a total issuance size of \$1 billion equivalent.

This was the first non-conforming multi-currency issue for Homeloans and reflects the progression of our funding platform.

The Triomphe Trust Series No 5 was settled on 16 July 2018 and is a new \$315 million warehouse facility.

DIRECTORS' REPORT

DIRECTORS' REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES

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 or 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 105 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.

REMUNERATION REPORT 2018 (AUDITED)

Contents

Section	Details	Page
1	Accounting and disclosure implications of the merger	14
2	Executive summary	14
3	Key management personnel	14
4	KMP remuneration	15
5	Outcomes	16
6	Statutory remuneration	17
7	Long-term and short-term incentive plans	19
8	Summary of awards held under Homeloans share rights	19
9	Non-executive director remuneration	20
10	Other remuneration information	22

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 2018 full year information, including key management personnel (KMP) and the 30 June 2017 comparative information reflects Homeloans as the 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 2018.

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

3. Key Management Personnel (KMP)

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
Current		
MCWILLIAM, Scott	Joint Chief Executive Officer (Joint CEO)	Full Term
PLOUGHMAN, Mary	Joint Chief Executive Officer (Joint CEO)	Full Term
Former		
PARKES, Ian	Chief Financial Officer (CFO) ¹	Ceased April 2018

1. Jason Azzopardi appointed as CFO on 3 July 2018

REMUNERATION REPORT 2018 (AUDITED)

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
Current		
DARVALL, Chum	Chairman, Independent Non-Executive Director	Full Term
HANSEN, Susan	Independent Non-Executive Director	Full Term
JEFFERIES, Michael	Independent Non-Executive Director	Full Term
MCLELAND, Warren	Non-Executive Director	Full Term
SAVILLE, Duncan	Non-Executive Director	Full Term
SCOTT, Robert	Independent Non-Executive Director	Full Term
Former		
SALMON, Robert	Independent Non-Executive Director	Ceased November 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. accountability, responsibility, skill and experience required); and
- market benchmarking.

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 by the Remuneration Committee.

REMUNERATION REPORT 2018 (AUDITED)

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 at the beginning of the performance period.

KPIs include:

- Strategic;
- Financial;
- Operational efficiency and effectiveness;
- People and culture; and
- Risk and compliance components.

The STI awarded for the 30 June 2018 year will be paid in 100% 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 FY18 performance period in August 2018. The key performance indicators that were assessed included financial objectives such as:

- Annual NPAT (normalised); and
- Return of Equity (ROE).

4.2 Long Term Incentive (LTI)

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

- retention; and
- to align to long term company performance with that of its shareholders.

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 FY14-FY16 are shown for the pre-merger Homeloans Limited results and not RESIMAC or the merged entity.

Financial year ended 30 June	FY18	Merged	Homeloans pre-acquisition		
		FY17	FY16	FY15	FY14
NPAT (\$'000)	25,332	15,780	5,253	5,608	6,205
Total dividends per share (cents)	1.65	2.75 ²	4.0	4.0	5.0
Dividend payout ratio (%)	25.9	62.6	80.5	75.0	85.5
Closing share price (cents as at 30 June)	57.0	43.0	44.0	58.0	75.0
Basic earnings per share (cents)	6.37	4.39	4.96	5.33	5.84
Return on equity (ROE) (%) ³	17.2	11.2	11.9	13.3	14.7
Return on assets (%) ¹	2.8	2.3	1.8	2.0	2.1

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 to existing Homeloans Ltd shareholders prior to the completion of the RESIMAC transaction.

3 FY18 ROE based on normalised NPAT. FY17 ROE calculated on year-end shareholders equity at 30 June 2017. FY18 ROE based on average shareholders equity.

REMUNERATION REPORT 2018 (AUDITED)

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 2018.

Short-term benefits				Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments ²	Total	Percentage performance related ³	Percentage rights related
Salary	STI awarded	Non-monetary benefits	Super-annuation	Leave ¹						
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)	(%)
CURRENT KMP										
MCWILLIAM, Scott										
FY18	436,733	192,676	-	25,000	10,911	-	21,667	686,987	31.2	3.1
FY17	426,881	232,140	548	35,000	25,347	-	114,807	834,723	27.8	13.8
PLOUGHMAN, Mary										
FY18	437,313	192,676	4,167	25,579	2,113	-	21,667	683,515	31.4	3.2
FY17 ⁴	268,317	232,140	16,667	23,333	4,433	-	-	544,890	42.6	-
FORMER KMP										
PARKES, Ian (ceased as KMP on 5 April 2018)										
FY18	255,774	-	-	21,872	-	213,350	-	490,996	-	-
FY17	282,220	100,000	4,479	30,000	9,780	-	20,264	446,743	22.4	4.5

REMUNERATION REPORT 2018 (AUDITED)

6. Statutory remuneration (cont.)

Short-term benefits			Post-employment benefits	Long-term benefits	Termination benefits	Share-based payments ²	Total	Percentage performance related ³	Percentage rights related
Salary	STI awarded	Non-monetary benefits	Super-annuation	Leave ¹					
(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(%)	(%)
FORMER KMP									
HAIR, RAY									
FY18	-	-	-	-	-	-	-	-	-
FY17	80,137	-	-	7,613	620	-	16,183	104,553	- 15.5
TOTAL									
FY18	1,129,820	385,352	4,167	72,451	13,024	213,350	43,334	1,861,498	
FY17	1,057,555	564,280	21,694	95,946	40,180	-	151,254	1,930,910	

¹ Long-term benefits relate to long service leave accrued during the year.

² FY18: The expensing of the 2018 share options granted to KMP on 18 August 2017.

FY17: 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, which were originally vested up to 31 December 2018 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.

REMUNERATION REPORT 2018 (AUDITED)

7. Long-term and short-term incentive plans

7.1 2018 LTI Plan

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

- Each received 900,000 Options pursuant to the Homeloans Employee Share Option and Rights Plan;
- The grant date was 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 first tranche of 300,000 vested in August 2018 and is exercisable);
- The exercise period is 3 years for each tranche vesting; and
- The vesting condition is 100% tenure.

7.2 2018 STI Plan

Each KMP has a contractual STI in which 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.

KPI's and relevant measurements 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 and options

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

KMP	Held at 1 July 2017	Granted during year	Vested during the year	Held at 30 June 2018
Current				
MCWILLIAM, Scott	-	900,000	-	900,000
PLOUGHMAN, Mary	-	900,000	-	900,000
Former				
PARKES, Ian	-	-	-	-
	-	1,800,000	-	1,800,000

REMUNERATION REPORT 2018 (AUDITED)

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 are 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 reviews 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 and with an Australian Financial Services Licence and an Australian Credit Licence.

The agreed fee structure is that a fee is paid to reflect the Chairman's responsibilities. Each director receives a base fee and if a director chairs a Board committee, an additional fee is applied. No fee is paid for committee membership.

The 2018 fee levels were as follows:

Name	Position	Maximum Fee (\$)
DARVALL, Chum	Chairman and Remuneration and Nomination Chair	120,000
HANSEN, Susan	Audit Chair & New Zealand Chair	105,000
JEFFERIES, Michael ¹	Non-executive Director	70,000
MCLELAND, Warren	Risk and Compliance Chair	75,000
SAVILLE, Duncan	Non-executive Director	70,000
SCOTT, Robert ²	Non-executive Director	70,000

1. Appointed member of the Remuneration and Nomination Committee on 21 February 2018. He was previously Chair since November 2016. His maximum fee reduced from \$75,000 in FY17 to \$70,000 in FY18.

2. Resigned as Chairman on 13 November 2017 and remains as non-executive director, with his maximum fee reducing from \$100,000 to \$70,000 per year.

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 last review was conducted in March 2018. These assessments are conducted in-house however if any Board member wishes to have an independent review the appropriate consultant will be appointed.

REMUNERATION REPORT 2018 (AUDITED)

9.1.5 Non-executive director remuneration

The fees paid or payable to the non-executive directors in relation to the 2018 financial year are set out below:

Current	Fees \$	Superannuation \$	Total \$
DARVALL, Chum ¹			
FY18	104,120	-	104,120
FY17	20,000	-	20,000
HANSEN, Susan			
FY18	105,000	9,975	114,975
FY17	74,954	7,121	82,075
JEFFERIES, Michael			
FY18	72,500	6,888	79,388
FY17	55,822	5,303	61,125
MCLELAND, Warren			
FY18	75,000	7,125	82,125
FY17	36,416	8,750	45,166
SAVILLE, Duncan ²			
FY18	44,321	-	44,321
FY17	-	-	-
SCOTT, Robert ³			
FY18	81,250	-	81,250
FY17	89,583	-	89,583
Former			
SALMON, Robert ⁴			
FY18	25,756	2,447	28,203
FY17	63,613	6,043	69,656
Total remuneration			
FY18	507,947	26,435	534,382
FY17	340,388	27,217	367,605

1. Appointed as Chairman on 13 November 2017. Previously Deputy Chairman appointed April 2017.

2. Appointed Non-Executive Director on 13 November 2017. Previous alternate director appointed February 2017.

3. Resigned as Chairman on 13 November 2017.

4. Resigned as Independent Non-Executive Director on 13 November 2017.

REMUNERATION REPORT 2018 (AUDITED)

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);
- Identify and recommend candidates to the Board for nomination as members of the Board or its Committees;
- Develop and implement a process for orientation of new directors;
- Review and approve 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;
- Review and approve the remuneration of KMPs, Directors and senior management (including total fixed remuneration, short term incentives and long term incentives);
- Approve executive 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:

- Chum Darvall – Chair; and
- Susan Hansen, Michael Jefferies, Warren McLeland and Duncan Saville 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 Committee.

The Company did not engage any remuneration consultants during the year.

REMUNERATION REPORT 2018 (AUDITED)

10.1.4 KMP share ownership

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

Name	Held at 1 July 2017	Vested/ exercised rights	Net change	Held at 30 June 2018
Non-executive directors				
DARVALL, Chum	1,175,000	-	253,973	1,428,973
HANSEN, Susan	100,000	-	3,270	103,270
JEFFERIES, Michael	648,564	-	21,210	669,774
MCLELAND, Warren	11,440,055	-	374,135	11,814,190
SAVILLE, Duncan	231,922,076	-	16,872,228	248,794,304
SCOTT, Robert	2,156,116	-	70,513	2,226,629
	247,441,811	-	17,595,329	265,037,140
Senior executives				
MCWILLIAM, Scott	1,260,381	-	41,219	1,301,600
PLOUGHMAN, Mary	63,194	-	20,522	83,716
	1,323,575	-	61,741	1,385,316
Former				
PARKES, Ian	397,743	-	(200,000)	197,743
SALMON, Robert	10,627,449	-	(4,251,115)	6,376,334
	11,025,192	-	(4,451,115)	6,574,077
	259,790,578	-	13,205,955	272,996,533

10.1.5 Share trading restrictions

Homeloans securities trading policy reflects the *Corporations Act 2001* 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. All other staff must adhere to the Securities Trading Policy and are restricted from trading within the blackout periods.

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.

REMUNERATION REPORT 2018 (AUDITED)**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
MCWILLIAM, Scott	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct
PLOUGHMAN, Mary	Six months' notice (or payment in lieu) May be terminated immediately for serious misconduct

10.1.7 Related party transactions

Loans to KMP and their related parties are secured loans provided in the ordinary course of the business. All loans have normal commercial terms. No amounts have been written down or recorded as provisions as the balances are considered fully collectable.

Details regarding loans outstanding at the reporting date to KMP and their related parties, where the individual's aggregate loan balance exceeded \$100,000 at any time during the reporting period, are outlined below.

Name	Balance 1 July 2017 \$	Balance 30 June 2018 \$	Interest charged during the year \$	Highest balance \$
Non-executive directors				
SAVILLE, Duncan	5,458,000	5,322,444	240,717	5,458,000
SCOTT, Robert ¹	-	1,000,000	6,752	1,000,000
	5,458,000	6,322,444	247,469	6,458,000

1. Loan advanced on 24 April 2018

10.1.7.1 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

REMUNERATION REPORT 2018 (AUDITED)

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



Cholmondeley Darvall

Chairman and Non-executive Director

Sydney

27 September 2018

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	FY18 \$'000	FY17 \$'000
Interest income	1	358,360	278,830
Interest expense	2	(255,825)	(196,288)
Net interest income		102,535	82,542
Fee and commission income	1	28,114	32,084
Fee and commission expense	2	(32,786)	(31,096)
Other income	1	2,045	4,365
Employee benefits expense	2	(37,473)	(36,677)
Other expenses	2	(24,880)	(26,862)
Loan impairment expense	2	(1,623)	(1,334)
Profit before tax		35,932	23,022
Income tax expense	3	(10,600)	(7,242)
PROFIT AFTER TAX		25,332	15,780
Attributable to:			
Owners of the parent		25,320	15,768
Non-controlling interest		12	12
		25,332	15,780

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	FY18 \$'000	FY17 \$'000
PROFIT AFTER TAX		25,332	15,780
Other comprehensive income, net of income tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Reversal of prior year reserve on trust wind up		(41)	(22)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Changes in fair value of cash flow hedges		1,054	(4,330)
Tax effect		(316)	1,304
Currency translation differences		(593)	(146)
Other comprehensive income, net of tax		104	(3,194)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		25,436	12,586
Attributable to:			
Owners of the parent		25,424	12,574
Non-controlling interest		12	12
		25,436	12,586
		FY18 cents per share	FY17 cents per share
Earnings per share			
Basic	19	6.37	4.39
Diluted	19	6.35	4.39

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 31 to 103.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	FY18 \$'000	FY17 \$'000
ASSETS			
Cash and cash equivalents	4	198,905	187,109
Trade and other receivables	5	7,638	7,674
Current tax receivable	3	-	105
Loans and advances	6	8,633,339	6,642,988
Other financial assets	7	57,420	62,449
Derivative financial assets	21	43,596	7,297
Other assets	9	3,428	3,503
Plant and equipment	8	2,625	1,351
Goodwill and intangible assets	10	22,098	22,296
		8,969,049	6,934,772
LIABILITIES			
Trade and other payables	11	43,870	38,345
Current tax payable	3	2,048	-
Provisions	15	4,441	5,144
Interest-bearing liabilities	12	8,716,912	6,708,755
Other financial liabilities	13	27,848	28,328
Derivative financial liabilities	21	549	4,384
Other liabilities	14	2,669	2,792
Deferred tax liabilities	3	7,887	5,716
Lease incentives		100	100
		8,806,324	6,793,564
NET ASSETS		162,725	141,208
EQUITY			
Share capital	18	177,340	174,762
Reverse acquisition reserve	18	(61,541)	(61,541)
Total issued capital	18	115,799	113,221
Reserves	18	(3,011)	(3,158)
Retained earnings	18	49,937	31,136
Equity attributable to owners of the parent		162,725	141,199
Non-controlling interest		-	9
		162,725	141,208

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 31 to 103.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 2018

	Share capital	Reverse acquisition reserve ¹	Total issued capital	Reserves ²	Retained earnings	Attributable to owners of the parent	Non- controlling interest	Total
	\$'000	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
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 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
Equity 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
Balance at 1 July 2017	174,762	(61,541)	113,221	(3,158)	31,136	141,199	9	141,208
Profit after tax	-	-	-	-	25,320	25,320	12	25,332
Other comprehensive income, net of tax	-	-	-	104	-	104	-	104
Total comprehensive income for the period	-	-	-	104	25,320	25,424	12	25,436
Acquisition of non-controlling interest	-	-	-	-	21	21	(21)	-
Issue of shares under the Dividend Reinvestment Plan	2,578	-	2,578	-	-	2,578	-	2,578
Equity dividends	-	-	-	-	(6,540)	(6,540)	-	(6,540)
Share-based payments	-	-	-	43	-	43	-	43
Balance at 30 June 2018	177,340	(61,541)	115,799	(3,011)	49,937	162,725	-	162,725

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, foreign currency translation and share-based payments 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 31 to 103.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	FY18 \$'000	FY17 \$'000
Cash flows from operating activities			
Interest received		373,597	292,965
Interest paid		(242,060)	(189,023)
Receipts from loan fees and other income		57,250	44,976
Payments to suppliers and employees		(135,280)	(117,860)
Payments of net loans to borrowers		(1,992,903)	(1,230,045)
Income tax paid		(5,211)	(7,491)
Net cash used in operating activities		(1,944,607)	(1,206,478)
Cash flows from investing activities			
Payment for plant and equipment		(2,172)	(402)
Loans (to)/from related parties		(8,375)	11,820
Cash acquired on acquisition of business		-	10,345
Proceeds from sale of share in joint ventures		-	2,253
Net cash (used in)/provided by investing activities		(10,547)	24,016
Cash flows from financing activities			
Proceeds from borrowings		15,739,613	20,016,927
Repayment of borrowings		(13,766,759)	(18,803,223)
Swap payments		(1,150)	(1,089)
Payment of dividends		(3,961)	(5,118)
Net cash provided by financing activities		1,967,743	1,207,497
Net increase in cash and cash equivalents		12,589	25,035
Cash and cash equivalents at the beginning of the period (1 July)		187,109	161,494
Effects of exchange rate changes on cash balances held in foreign currencies		(793)	580
Cash and cash equivalents at the end of the period	4	198,905	187,109

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 31 to 103.

About this report

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 2018 was authorised for issue in accordance with a resolution of the Directors on 27 September 2018. 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;
- 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 2018. Refer to Note 31 for further details; and
- equity accounts for associates listed at Note 23.

Key judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements, 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 judgements. Actual results may differ from these estimates.

Judgements 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	Loan impairment and provisioning
7&13	NPV of future trail commission: recognition of future commissions receivable and payable
10	Goodwill impairment
15	Provisions – long service leave
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.

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, judgements 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.

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

Represents the distribution and lending businesses currently captured under the following primary brands:

- Homeloans,
- RESIMAC; and
- State Custodians.

The segment contains the bulk of the Australian based income and expense. 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 includes that it has a separate board and management reporting; it has separate regulatory requirements/oversight; and there are 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.

3. Paywise business

This segment represents the Australian 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 has different sources of income and products than the other two segments. Paywise is a salary packaging service provider which operates nationally, providing services to employers and employees to manage salary packaging arrangements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | SEGMENT INFORMATION
FOR THE YEAR ENDED 30 JUNE 2018

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

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers	368,322	299,013	16,247	12,092	3,950	4,174	388,519	315,279
Total segment revenue	368,322	299,013	16,247	12,092	3,950	4,174	388,519	315,279
Segment results before tax, depreciation, amortisation, finance costs and impairment	40,044	26,787	2,186	1,914	1,109	471	43,339	29,172
Depreciation and amortisation	(860)	(731)	(24)	(13)	(239)	(301)	(1,123)	(1,045)
Loan impairment	(1,644)	(1,241)	21	(92)	-	-	(1,623)	(1,333)
Finance costs	(4,483)	(3,662)	(178)	(110)	-	-	(4,661)	(3,772)
Segment results before income tax	33,057	21,153	2,005	1,699	870	170	35,932	23,022
Income tax expense ¹							(10,600)	(7,242)
PROFIT AFTER TAX							25,332	15,780

1. The income tax expense is grouped on a Consolidated basis instead of by reportable operating segment.

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

	AUSTRALIAN LENDING		NEW ZEALAND LENDING		PAYWISE		CONSOLIDATED	
	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	8,556,696	6,662,963	397,350	256,201	15,003	15,608	8,969,049	6,934,772
	8,556,696	6,662,963	397,350	256,201	15,003	15,608	8,969,049	6,934,772
Segment liabilities	(8,415,011)	(6,525,033)	(367,271)	(247,594)	(14,107)	(15,016)	(8,796,389)	(6,787,643)
Tax liabilities ¹	-	-	-	-	-	-	(9,935)	(5,921)
	(8,415,011)	(6,525,033)	(367,271)	(247,594)	(14,107)	(15,016)	(8,806,324)	(6,793,564)
NET ASSETS	141,685	137,930	30,079	8,607	896	592	162,725	141,208

1. The tax liabilities are grouped on a Consolidated basis instead of by reportable operating segment.

1. Income

	FY18 \$'000	FY17 \$'000
Interest		
Loans and advances	345,836	267,900
Bank deposits	2,584	2,194
Interest received – other persons/corporations	6,547	5,615
Discount unwind on net present value of trail commission	3,393	3,121
	358,360	278,830
Fee and commission		
Mortgage origination	8,883	11,718
Loan management	10,277	11,778
Salary packaging	2,704	2,858
Vehicle financing commission	3,013	2,425
Net loan fees	3,237	3,305
	28,114	32,084
Other	2,045	4,365
	388,519	315,279

1. Income (continuation.)

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 third party 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 on non-principally funded loans 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 trail 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 trail 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.

2. Expenses

	FY18 \$'000	FY17 \$'000
Interest		
Bond and warehouse facilities	242,493	186,782
Amortisation – bond issue costs	5,295	4,122
Discount unwind on net present value of trail commission	1,569	1,838
Net swap payments	1,128	1,077
Other	5,340	2,469
	255,825	196,288
Fee and commission		
Mortgage origination	7,343	9,843
Loan management	20,782	17,481
Other financing costs	4,661	3,772
	32,786	31,096
Employee benefits		
Remuneration, bonuses, superannuation and on-costs	37,430	36,677
Share-based payments	43	-
	37,473	36,677
Other		
Marketing, consultancy and IT	11,306	14,888
Occupancy-related	3,421	3,463
Depreciation and amortisation	1,123	1,046
Other	9,030	7,465
	24,880	26,862
Loan impairment	1,623	1,334
	352,587	292,257

2. Expenses (continuation)

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 in establishing mortgage loans 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 interest income.

The amortisation rate 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 transaction costs are included as part of the amortised cost of the loans per Note 6.

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

For non-principally funded business, trail commission payments to brokers and commissioned staff based on the loan book balance outstanding. See Note 1.2.2 for more detail.

2.3 Employee benefits

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

2.3.1 Share-based payments expense

The policy relating to share-based payments is set out in Note 30.

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, general administration expenses and unrecoverable costs. These items are expensed when incurred.

3. Income tax

3.1 Income tax recognised in profit or loss

	FY18	FY17
	\$'000	\$'000
Current tax		
In respect of the current year	10,663	5,767
In respect of prior years	(1,121)	(904)
Translation loss on foreign currency assets and liabilities	(3)	(18)
	9,539	4,845
Deferred tax		
In respect of the current year	126	2,397
In respect of prior years	935	-
	1,061	2,397
Total income tax expense recognised in the current year	10,600	7,242
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax	35,932	23,022
Income tax expense calculated at 30% (FY17: 30%)	10,780	6,907
Effect of expenses that are not deductible in determining taxable profit	245	248
Effect of different tax rates of subsidiaries operating in other jurisdictions	6	5
Write down of deferred tax assets	199	2,162
Other items	(444)	(1,176)
	10,786	8,146
Adjustments recognised in the current year in relation to the current tax of prior years	(186)	(904)
Income tax expense recognised in profit or loss	10,600	7,242

The tax rate used for FY18 and FY17 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

Current tax receivable/(payable)	(2,048)	105
	(2,048)	105

3. Income tax (continuation)

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:

	FY18 \$'000		FY17 \$'000	
Deferred tax assets	18,993		18,324	
Deferred tax liabilities	(26,880)		(24,040)	
	(7,887)		(5,716)	

	Opening balance	Current year recognised in profit or loss	Prior year recognised in profit or loss	Recognised directly in equity	Recoup tax loss against tax liability	Closing balance
FY18	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
DTA in relation to:						
Doubtful debts	318	29	31	(4)	-	374
Plant, equipment and software	950	446	65	-	-	1,461
Deferred mortgage insurance	514	(68)	-	-	-	446
Employee entitlements	1,120	57	(4)	-	-	1,173
Net provision for lease make good	60	-	-	-	-	60
Other accrued expenses	2,590	184	(369)	-	-	2,405
Blackhole expenditure	989	(339)	51	-	-	701
Tax losses carried forward	1,766	-	-	-	(802)	964
Trail commission payable	9,983	2,079	(706)	-	-	11,356
Lease Liability	-	28	-	-	-	28
Derivatives	4	1	(10)	-	-	(5)
Lease incentives	30	-	-	-	-	30
	18,324	2,417	(942)	(4)	(802)	18,993
DTL in relation to:						
Capitalised incentive commission ¹	6,446	5,397	84	(12)	-	11,915
Loans and advances	(2,312)	(1,122)	95	-	-	(3,339)
Deferred bond issue cost	1,761	516	-	-	-	2,277
Derivatives	(2,032)	256	284	316	-	(1,176)
Trail commission receivable	19,969	(2,442)	(261)	-	-	17,266
Accrued income and other	208	(62)	(209)	-	-	(63)
	24,040	2,543	(7)	304	-	26,880
	(5,716)	(126)	(935)	(308)	(802)	(7,887)

3. Income tax (continuation)

3.3 Deferred tax balances (continuation)

	Opening balance	Current year recognised in profit or loss	Recognised directly in equity	Recoup tax loss against tax liability	Additional amounts recognised from business combination	Closing balance
FY17	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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:						
Capitalised incentive commission ¹	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)

1. Previously disclosed as 'Rights to future management fees' in FY17. This has been renamed to Capitalised incentive commission for FY18 to improve the disclosures of these financials.

3. Income tax (continuation)

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 transferrable 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.

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. Income tax (continuation)

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 judgement

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.

4. Cash and cash equivalents

	Note	FY18 \$'000	FY17 \$'000
Cash at bank and on hand		15,181	18,542
Cash collections account ¹		182,060	166,210
Restricted cash ²		1,664	2,357
	20	198,905	187,109
Reconciliation of profit after tax to the net cash flows from operating activities			
Profit after tax		25,332	15,780
Non-cash items			
Depreciation and amortisation	2	1,123	1,046
Amortisation of bond issue costs	2	5,295	4,122
Gain/(loss) on sale of interests in joint ventures	23	-	(1,080)
Loss on financial assets classified available for sale		443	-
Fair value movement on interest rate swaps		(463)	334
Loan impairment movement		1,623	1,579
Net loss on disposal of non-current assets		59	12
Present value of future trail commission income		4,846	1,632
Present value of future trail commission expense		(480)	(51)
Impairment allowance account		1,064	(4,258)
Deferred tax asset		(642)	3,710
Deferred tax liabilities		2,809	(274)
Provisions		(703)	(895)
Derivative financial liabilities		(3,835)	(20)
Share-based payments expense	2	43	-
(Increase)/decrease in assets			
Trade and other receivables		36	4,466
Loans and advances		(1,990,351)	(1,234,028)
Increase/(decrease) in liabilities			
Trade and other payables		5,525	6,883
Current tax payable		2,048	(3,136)
Interest-bearing liabilities		1,621	(2,300)
Net cash flows used in operating activities		(1,944,607)	(1,206,478)

¹ Cash collections account includes monies in the SPV's, 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.

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.

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	FY18 \$'000	FY17 \$'000
Current			
Fee and commission receivable		3,318	2,585
Prepayments		1,741	1,995
GST refund		1,337	1,209
Sundry receivable		1,242	1,885
	20	7,638	7,674

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 are 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 Residential Mortgage Trusts (RMT) SPV's on the last day of the reporting period and not cleared in the bank until the first day of the next financial period.

6. Loans and advances

	Note	FY18 \$'000	FY17 \$'000
Gross loans and advances			
Loans and advances		8,619,370	6,627,335
Capitalised incentive costs		31,290	21,852
Capitalised mortgage insurance costs		546	1,014
Recognised deferred mortgage fee		(11,229)	(7,718)
Loans (from)/to related parties		(44)	6,035
		8,639,933	6,648,518
Less: allowance for impairment		(6,594)	(5,530)
	20	8,633,339	6,642,988
Current		1,987,185	1,367,518
Non-current		6,652,748	5,281,000
		8,639,933	6,648,518
Impairment allowances			
Collective allowance		2,975	2,166
Specific allowance		3,619	3,364
		6,594	5,530
Movement in impairment allowances			
Balance at 1 July		5,530	8,109
Provided for during the year		1,623	1,334
Written off		(559)	(4,278)
Additional amounts recognised from business combinations occurring in the current period		-	365
Balance at 30 June		6,594	5,530

6. Loans and advances (continuation)

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 judgements

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 of the 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.

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 judgements.

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

6. Loans and advances (continuation)

6.3 Security properties repossessed

As at 30 June 2018, the Group had exercised their right to liquidate 40 residential properties (FY17- 15) 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	FY18 \$'000	FY17 \$'000
Present value of future trail commission receivable	20	57,160	62,006
Short-term investment	20	260	-
Unlisted shares	20	-	443
		57,420	62,449
Current		17,753	15,719
Non-current		39,667	46,730
		57,420	62,449

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 to 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:

	FY18	FY17
Weighted average loan life (years)	3.1	3.2
Discount rate	6%	6%

Weighted average loan life

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

7. Other financial assets (continuation)

7.1.4 Key judgements

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 key inputs potentially 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 of 25% 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 credit risk associated with the counterparties providing the trail income (i.e. risk free rate of 2.7% base 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 2018 reflects a discount rate of 6%. 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.

7.3 Short-term investment

Term deposit classified as a held-to-maturity investment with fixed or determinable payments and fixed maturity date which the Group has the positive intent and ability to hold to maturity.

8. Plant and equipment

	FY18 \$'000	FY17 \$'000
Carrying amounts of:		
Plant and equipment	2,625	1,346
Equipment under finance lease	-	5
	2,625	1,351

	Plant and equipment at cost	Equipment under finance lease at cost	Total
	\$'000	\$'000	\$'000
Balance at 1 July 2017	1,346	5	1,351
Additions	2,146	-	2,146
Disposals and write-offs	(62)	-	(62)
Depreciation expense	(803)	(5)	(808)
Foreign exchange	(2)	-	(2)
Balance at 30 June 2018	2,625	-	2,625
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

Recognition and measurement

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

8.1 Depreciation and amortisation

Depreciation is recognised 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 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.

9. Other assets

	FY18 \$'000	FY17 \$'000
Reinsurance claim receivable	2,669	2,792
Collateral deposit	683	689
Other	76	22
	3,428	3,503
Current	759	711
Non-current	2,669	2,792
	3,428	3,503

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 (RHG) 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 provided the following financial guarantees:

- Westpac Banking Corporation (WBC) guarantee on Paywise's Melbourne office lease; and
- WBC guarantee to secure Paywise's fleet funded Caltex fuel card product.

All have maturity dates of less than 12 months.

10. Goodwill and intangible assets

Goodwill		
Balance at 1 July		21,766
Additional amounts recognised from business combinations occurring in the current period	24	-
Balance at 30 June		21,766
Other intangible assets		
Balance at 1 July		530
Additions		110
Amortisation for the year		(308)
Balance at 30 June		332
		22,098
		22,296

10. Goodwill and intangible assets (continuation)

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 2018.

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 prior 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. Goodwill and Intangible assets (continuation)

Goodwill (continuation)

10.4 Key judgements and assumptions

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

	FY18 \$'000
Growth rate for 5 year forecast period (p.a)	10.0%
Discount rate (post-tax)	10.0%
Terminal growth rate	2.0%

The post-tax discount rate of 10% 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.

10.4.1 Sensitivity to change in assumptions

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

Furthermore, the VIU based on the key judgements and assumptions 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 FY18 (FY17: 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

11. Trade and other payables

	Note	FY18 \$'000	FY17 \$'000
Revenue collected in advance		8,433	9,355
Collections owed to trusts		10,988	9,052
Other creditors and accruals		10,630	9,428
Fleet management funds		4,941	5,493
Commissions		4,541	3,825
Other		4,337	1,192
	20	43,870	38,345
Current		43,870	38,345

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 \$7.5 million (FY17: \$8.4 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.

12. Interest-bearing liabilities

	Note	FY18 \$'000	FY17 \$'000
Debt securities on issue		8,517,621	6,594,908
Corporate debt facility		24,000	20,000
Issuance facilities		172,639	83,442
Loans from related parties		2,400	9,795
Lease liability		252	610
	20	8,716,912	6,708,755
Current		2,004,890	1,379,908
Non-current		6,712,022	5,328,847
		8,716,912	6,708,755

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 paid 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 and also 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 to 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 warehouse agreements. All warehouse facilities were renewed on their maturity date.

12.1.2 Securitised funding facilities

During the year ended 30 June 2018, AUD 3.25 billion and NZD 250 million of new Residential Mortgage Backed Securities (RMBS) were issued (FY17: AUD 2.25 billion). These issues paid down the warehouse facilities creating capacity to underwrite new mortgages.

12. Interest-bearing liabilities (continuation)

12.1.3 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.

12.1.4 Collateral

Certain warehouse facilities are supported by cash collateral reserves.

12.2 Corporate debt facility

As at 30 June 2018, the Company had a \$26 million corporate facility with National Australia Bank maturing in October 2018. The Group had an undrawn balance of \$2.0 million at 30 June 2018 (FY17: \$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 2018, the Group was compliant with these covenants.

The corporate debt facility is secured by a first-ranking charge over the trust assets of the Group. See Note 21.7.2 for further detail.

12.3 Loans from related parties

In line with its ordinary course of business, the Group provides a related party performance guarantee in respect to timely payment of interest and principal on specific unrated RMBS and warehouse bonds. Subordinated notes in one controlled entity which were held by a related party as at 30 June 2018 amount to \$2,400,000 (FY17: \$9,794,048).

13. Other financial liabilities

	Note	FY18 \$'000	FY17 \$'000
Present value of future trail commission payable		27,848	28,328
	20	27,848	28,328
Current		8,555	7,206
Non-current		19,293	21,122
		27,848	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 judgements in relation to the initial recognition and subsequent measurement of future trail commissions payable.

14. Other liabilities

Reinsurance claim reserve	2,669	2,792
	2,669	2,792
Non-current	2,669	2,792

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

15. Provisions

	FY18 \$'000	FY17 \$'000
Employee benefits	3,923	3,726
Make good	414	463
Other	104	955
	4,441	5,144
Current	3,847	4,402
Non-current	594	742
	4,441	5,144

	Employee benefits \$'000	Make good \$'000	Other \$'000	Total \$'000
Balance at 1 July 2017	3,726	463	955	5,144
Additional provisions recognised	197	21	149	367
Reductions resulting from remeasurement or settlement without cost	-	(70)	(1,000)	(1,070)
Balance at 30 June 2018	3,923	414	104	4,441

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;
- long service leave; and
- on-costs relating to the above

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. Provisions (continuation)

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.

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	FY18 \$'000	FY17 \$'000
Issued capital	18	115,799	113,221
Reserves	18	(3,011)	(3,141)
Retained earnings	18	49,937	31,119
Non-controlling interest	18	-	9
		162,725	141,208

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 repaying capital; and
- reinvesting profits into book growth.

17. Dividends

	FY18 \$'000	FY17 \$'000
Declared and paid during the period (fully-franked at 30 percent)		
Final dividend for FY17: \$0.0075	2,953	-
Interim dividend for HY18: \$0.009	3,587	2,968
	6,540	2,968
Proposed and unrecognised as a liability (fully-franked at 30 percent)		
Final dividend for FY18: \$0.009 (FY17: \$0.0075)	3,594	2,953
Franking credit balance		
Franking credits available for future years at 30% adjusted for the payment of income tax and dividends receivable or payable	13,280	12,999
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.	(1,540)	(1,266)

18. Issued capital and reserves

	Note	FY18 \$'000	FY17 \$'000
Share capital		177,340	174,762
Reverse acquisition reserve ¹		(61,541)	(61,541)
		115,799	113,221

¹ As a result of reverse acquisition accounting, a new equity account was 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 2018 was amended to \$177,340,615 (399,347,732 ordinary shares).

During the period, the Company issued 5,660,652 shares for \$2,578,410 in respect of the Homeloans Dividend Reinvestment Plan (DRP).

18.1 Fully paid ordinary shares

	Note	No. of shares – Thousands	\$'000
Balance at 1 July 2016		285,439	134,157
Issue of shares on acquisition of Homeloans Limited		108,248	40,605
Balance at 30 June 2017 and 1 July 2017		393,687	174,762
Issue of shares under the DRP:			
• FY17 Dividend on 5 October 2017		4,892	2,121
• HY18 Dividend on 9 April 2018		769	457
Balance at 30 June 2018		399,348	177,340

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

18. Issued capital and reserves (continuation)

18.2 Reserves (net of income tax) and retained earnings

	Reserves				Non-controlling interest
	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Share-based payment reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 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)	-	-
Equity dividends	(2,967)	-	-	-	-
Balance at 30 June 2017	31,136	(3,738)	580	-	9
Balance at 1 July 2017	31,136	(3,738)	580	-	9
Profit after tax	25,320	-	-	-	12
Changes in fair value of cash flow hedges, net of tax	-	697	-	-	-
Currency translation differences	-	-	(593)	-	-
Acquisition of non-controlling interest	21	-	-	-	(21)
Equity dividends	(6,540)	-	-	-	-
Share-based payments	-	-	-	43	-
Balance at 30 June 2018	49,937	(3,041)	(13)	43	-

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 currency to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

18.2.3 Share-based payment reserve

The share-based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including KMP, as part of their remuneration. Refer to Note 30 for further details of these plans.

18.2.4 Retained earnings

See Note 17 in respect of payment of dividends.

19. Earnings per share

	FY18	FY17
Profit attributable to ordinary equity holders of the parent (\$'000)	25,320	15,780
WANOS ¹ used in the calculation of basic EPS (shares, thousands)	397,467	359,285
WANOS ¹ used in the calculation of diluted EPS (shares, thousands) ²	399,030	359,285
Earnings per share		
Basic (cents per share)	6.37	4.39
Diluted (cents per share)	6.35	4.39

1. Weighted average number of shares

2. The variance in the WANOS used in the calculation of the basic EPS and the diluted EPS is attributable to in-substance options granted during FY18.

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 2018

The number of Homeloans shares issued:

- **From 1 July 2017 to 4 October 2017 (103,545,095)**

The number of Homeloans ordinary shares on issue of 393,687,080 multiplied by the ratio of days outstanding (96/365); plus

- **From 5 October 2017 to 8 April 2018 (203,111,233)**

- The number of Homeloans shares on issue (393,687,080) at 4 October 2017; plus
 - Shares issued on 5 October 2017 under the DRP (4,891,415)
- multiplied by the ratio of days outstanding (186/365).

- **From 9 April 2018 to 30 June 2018 (90,810,580)**

- The number of Homeloans shares on issue (398,578,495) at 8 April 2018; plus
 - Shares issued on 9 April 2018 under the DRP (769,237)
- multiplied by the ratio of days outstanding (83/365).

19. Earnings per share (continuation)

In accordance with specific guidance provided in AASB 3 *Business Combinations*, the weighted average number of shares (WANOS) outstanding relating to FY17 was 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 shares on issue (393,687,080) multiplied by the ratio of days outstanding (249/365).

19.3.1 Diluted EPS

Twelve months to 30 June 2018

The number of Homeloans shares issued:

- **From 1 July 2017 to 17 August 2017 (51,772,548)**

The number of Homeloans ordinary shares on issue of 393,687,080 multiplied by the ratio of days outstanding (48/365); plus

- **From 18 August 2017 to 4 October 2017 (52,009,260)**

- The number of Homeloans shares on issue (393,687,080) at 17 August 2017; plus
- Share options granted on 18 August 2017 (1,800,000)

multiplied by the ratio of days outstanding (48/365).

- **From 5 October 2017 to 8 April 2018 (204,028,493)**

- The number of Homeloans shares on issue (395,487,080) at 4 October 2017; plus
- Shares issued on 5 October 2017 under the DRP (4,891,415)

multiplied by the ratio of days outstanding (186/365).

- **From 9 April 2018 to 30 June 2018 (91,219,895)**

- The number of Homeloans shares on issue (400,378,495) at 8 April 2018; plus
- Shares issued on 9 April 2018 under the DRP (769,237)

multiplied by the ratio of days outstanding (83/365).

20. Financial assets and financial liabilities

The Group holds the following financial instruments:

Financial assets	Basis of measurement	Note	FY18 \$'000	FY17 \$'000
Cash and cash equivalents	Amortised cost	4	198,905	187,109
Trade and other receivables	Amortised cost	5	7,638	7,674
Loans and advances	Amortised cost	6	8,633,339	6,642,988
Present value of trail commission receivable	Amortised cost	7	57,160	62,006
Short-term investment	Amortised cost	7	260	-
Investment securities – held for trading	FVTPL	7	-	443
Derivative financial assets	FVTPL	21	43,596	7,297
			8,940,898	6,907,517
Financial liabilities				
Trade and other payables	Amortised cost	11	43,870	38,345
Interest-bearing liabilities	Amortised cost	12	8,716,912	6,708,755
Present value of trail commission payable	Amortised cost	13	27,848	28,328
Derivative financial liabilities	FVTPL	21	549	4,384
			8,789,179	6,779,812

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); and
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Fair value hierarchy	Valuation technique(s) and key inputs (s)	FY18 \$'000	FY17 \$'000
Financial assets				
Unlisted shares	Level 2	Most recent traded price and other available market information	-	443
Interest rate swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	598	-
Cross currency swaps	Level 2	Discounted cash flow Forward exchange rates, contract forward rates	42,998	7,297
Financial liabilities				
Interest rate swaps	Level 2	Discounted cash flow Forward interest rates, contract interest rates	549	639
Cross currency swaps	Level 2	Discounted cash flow Forward exchange rates, contract forward rates	-	3,745

20. Financial assets and financial liabilities (continuation)

In the year to 30 June 2018 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 2018.

Recognition and measurement

20.2 Financial assets

Financial assets are classified into the following specified categories:

- FVTPL;
- held-to-maturity investments;
- available-for-sale financial (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

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

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.

20. Financial assets and financial liabilities (continuation)

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 advances 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 or 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.

20. Financial assets and financial liabilities (continuation)

In respect of investments, 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. Financial assets and financial liabilities (continuation)

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 function 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 monitoring tools which analyse exposures by degree and magnitude of risks.

These risks include:

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

21.2 Derivative financial instruments

The Group seeks to minimise the effects of currency and interest rate 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	Interest rate swaps
Credit risk	Cash and cash equivalents, trade receivables, derivative financial assets, loans and advances	Credit risk analysis	Diversification, Strong collections/portfolio management
Liquidity risk	Borrowings, derivative financial liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities, securitisation, structuring terms of obligations

21. Financial risk management (continuation)

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 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:

	FY18 \$'000	FY17 \$'000
Derivative financial assets		
Cross currency swaps	42,998	7,297
Interest rate swaps	598	-
	43,596	7,297
Derivative financial liabilities		
Cross currency swaps	-	3,745
Interest rate swaps	549	639
	549	4,384

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

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 driven by interest rate mismatches 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. Financial risk management (continuation)

21.4 Market risk (continuation)

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:

10bps +/-	FY18 \$'000	FY17 \$'000
Borrowing costs in special purpose entities	8,682	6,701

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 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.

	FY18 \$'000	FY17 \$'000
Fair value liability		
Held for trading	549	639
	549	639

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

Notional principal value		
Less than 1 year	19,333	811
1 to 2 years	55,417	15,035
2 to 5 years	252,907	27,481
	327,657	43,327

The interest rate swaps settle and reset on a monthly 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. 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.

21.4.4 Corporate interest – Sensitivity analysis

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 the Group for the year is set out in the table below:

10 bps +/-	FY18 \$'000	FY17 \$'000
Impact on corporate interest revenue		
Interest rate + 10%	199	180
Interest rate - 10%	(199)	(180)
Impact on corporate funding costs		
Interest rate + 10%	(24)	(20)
Interest rate - 10%	24	20

21. Financial risk management (continuation)

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 or the Consolidated Statement of 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. 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:

	FY18	FY17
	\$'000	\$'000
Assets		
USD	42,998	7,297
Liabilities		
EUR	-	(3,745)

21. Financial risk management (continuation)

21.6 Credit risk management

The Group's primary credit risk exposures relate to its lending activities in its principally-funded mortgage portfolio. The Group's primary lending activities are concentrated in the Australian and New Zealand residential mortgage market. The underlying credit risk in the Group's lending activities is commensurate with a geographically diverse residential mortgage portfolio.

The board of directors are responsible for determining the Group's overall appetite for credit risk and monitoring the quality and performance of the mortgage portfolio. The credit risk management operational framework and policy is governed and managed by the Credit Committee.

The Group does not have any direct counterparty credit exposure arising from its asset financing and securitisation activities. Counterparty risk is governed, and mitigated where required, by ratings agency criteria within the bankruptcy-remote funding SPV's and trusts including exposures to banks, lender's mortgage insurance providers and derivative counterparties.

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.

There is no significant concentration of risk 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. Financial risk management (continuation)

21.6 Credit risk management (continuation)

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 was:

	Note	FY18 \$'000	FY17 \$'000
Cash and cash equivalents	4	198,905	187,109
Trade and other receivables	5	7,638	7,674
Present value of future trail commission receivable	7	57,160	62,006
Short-term investment	7	260	-
Investment securities – held for trading	7	-	443
Derivative financial assets	21	43,596	7,297
		307,559	264,529
Loans and advances at amortised cost – balances subject to credit risk	6	8,619,370	6,633,370
		8,926,929	6,897,899

As at 30 June 2018, 100% of the Group's cash and cash equivalents are held with banks or financial institutions with a credit rating of AA- or better (FY17: 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.

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 2018, an amount of \$682,607 (FY17: \$689,000) has been disclosed in Note 9.

21. Financial risk management (continuation)

21.6 Credit risk management (continuation)

21.6.5 Distribution of financial assets by credit quality

	FY18 \$'000	FY17 \$'000
Neither past due nor impaired		
Gross loans and advances	8,532,626	6,562,028
Financial assets other than loans and advances	307,559	264,528
	8,840,185	6,826,556
Past due but not impaired		
Gross loans and advances		
• One to three months	35,747	25,199
• Three to six months	15,620	8,393
• Greater than six months	17,788	15,849
	69,155	49,441
Impaired		
Gross loans and advances	17,589	18,611
	17,589	18,611
	8,926,929	6,894,608

Collateral held

The value of the collateral held as security for loans past due but not impaired at 30 June 2018 is \$94.9 million (FY17: \$60.9 million).

The value of the collateral held as security for impaired loans at 30 June 2018 is \$13.1 million (FY17: \$26.8 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 Prime insured loans, LMI is taken out to cover 100% of the principal amount at default plus interest.

21. Financial risk management (continuation)

21.6 Credit risk management (continuation)

21.6.6 Geographical concentration and distribution of credit risk for loans and advances at amortised cost

	FY18 \$'000	FY17 \$'000
Neither past due nor impaired		
Australia	8,179,744	6,322,870
New Zealand	352,882	239,158
	8,532,626	6,562,028
Past due but not impaired		
Australia	66,514	45,766
New Zealand	2,641	3,676
	69,155	49,442
Impaired		
Australia	15,838	13,176
New Zealand	1,751	5,435
	17,589	18,611
	8,619,370	6,630,081

21. Financial risk management (continuation)

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, \$6.30 billion at 30 June 2018 (FY17: \$4.68 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 shows 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.

21. Financial risk management (continuation)

	<6 months or on demand	6-12 months	1-3 years	3-5 years	>5 years	Total cash flows	Carrying amount
Financial liabilities	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
FY18							
Non-derivatives							
Trade and other payables	43,870	-	-	-	-	43,870	43,870
Interest-bearing liabilities							
• Debt securities on issue	295,555	362,724	759,695	440,657	627,826	2,486,457	2,216,162
• Corporate debt facility	68	24,000	-	-	-	24,068	24,000
• Issuance facilities	-	-	-	172,639	-	172,639	172,639
• Loans from related parties	-	2,400	-	-	-	2,400	2,400
Lease liability	-	252	-	-	-	252	252
Present value of future trail commissions payable ¹	4,574	3,998	11,194	5,911	6,693	32,370	27,848
	344,067	393,374	770,889	619,207	634,519	2,762,056	2,487,171
Derivatives	549	-	-	-	-	549	549
	344,616	393,374	770,889	619,207	634,519	2,762,605	2,487,720
FY17							
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
Present value 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

¹ The obligation in respect of the present value 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.

21. Financial risk management (continuation)

21.7.2 Financing facilities

	Note	FY18 \$'000	FY17 \$'000
Secured corporate debt facility which may be extended by mutual agreement			
• Amount used		24,000	15,000
• Amount unused		2,000	5,000
		26,000	20,000

21.8 Other risk

21.8.1 Run-off risk – Present value of future trail commissions receivable and payable

21.8.1.1 Exposure to run-off risk

The Group will incur financial (loss)/gain if a loan from a customer or counterparties is prepaid, redrawn or discharged earlier or later than expected. A change in the pattern of the run-off rate 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 run-off rate.

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

	FY18 \$'000	FY17 \$'000
Impact on profit and equity		
Run-off rate + 10%	(2,640)	(3,566)
Run-off rate – 10%	3,039	4,226

22. Subsidiaries

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

			Proportion of ownership interest held and voting power held by the Group	
Name of subsidiary	Principal activity	Place of incorporation and operation	FY18	FY17
			%	%
Controlled companies				
Access Network Management Pty Ltd	Mortgage manager	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
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
Clarence Street Funding No.6 Pty Ltd ¹	Special purpose vehicle	Australia	100	-
Clarence Street Funding No.7 Pty Ltd ²	Special purpose vehicle	Australia	100	-
FAI First Mortgage Pty Ltd	Trust manager	Australia	100	100
Housing Financial Services Pty Ltd	Mortgage originator	Australia	100	100
Independent Mortgage Corporation Pty Ltd	Mortgage broker	Australia	100	100
Just Drive Pty Ltd	Fleet provider	Australia	100	100
Paywise Pty Ltd ³	Salary packaging provider	Australia	100	88
Prime Insurance Group Limited	LMI captive insurer	Bermuda	100	100
RESIMAC Capital Markets Pty Ltd	Trust manager	Australia	100	100
RESIMAC Financial Services Limited	NZ Holding company	New Zealand	100	100
RESIMAC Financial Securities Limited	NZ Trust manager and servicer	New Zealand	100	100
RESIMAC Home Loans Ltd	NZ Lender of record	New Zealand	100	100
RESIMAC Limited	Non-bank lender	Australia	100	100
RESIMAC NZ Home Loans Ltd	NZ Holding company	New Zealand	100	100
RHG Mortgage Corporation Ltd ⁴	Lender of record	Australia	-	-
RHG Mortgage Securities Pty Ltd (RMS) ⁴	Mortgage trustee	Australia	-	-
State Custodians Pty Ltd	Mortgage lender	Australia	100	100
The Servicing Company Pty Ltd	Trust servicer	Australia	100	100

¹ Incorporated 23 October 2017

² Incorporated 21 May 2018

³ Minority shareholding of 12% purchased on 4 September 2017. This resulted in Paywise becoming a wholly owned subsidiary.

⁴ Ownership interest is 0% but Board control

22. Subsidiaries (continuation)

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group	
			FY18	FY17
			%	%
Controlled companies				
0508 Home Loans Ltd	Dormant	New Zealand	100	100
0800 Home Loans Ltd	Dormant	New Zealand	100	100
Access Home Loans Pty Ltd	Dormant	Australia	100	100
Clarence St Funding No.5 Pty Ltd	Dormant	Australia	100	100
Feijoa Mortgages Ltd ⁵	Dormant	New Zealand	100	100
Fiduciary Services Pty Ltd	Dormant	Australia	100	100
HLL Pty Ltd	Dormant	Australia	100	100
IF & Securities Pty Ltd ⁶	Dormant	Australia	100	100
Jumpstart Home Loans Pty Ltd ⁷	Dormant	Australia	100	100
Loan Packaging Australia Pty Ltd	Dormant	Australia	100	100
Mortgage Processing Solutions Pty Ltd ⁷	Dormant	Australia	100	100
National Mutual Pty Ltd	Dormant	Australia	100	100
NSW Homeloans Pty Ltd ⁶	Dormant	Australia	100	100
Paywise Financial Services Pty Ltd ⁹	Dormant	Australia	100	100
Property Research Institute – Australia Pty Ltd ⁸	Dormant	Australia	100	100
QLD Homeloans Pty Ltd ⁶	Dormant	Australia	100	100
RESIMAC Bermuda Ltd ¹⁰	Dormant	Bermuda	100	100
RESIMAC Financial Securitisation Ltd	Dormant	New Zealand	100	100
RESIMAC Financial Services Pty Ltd	Dormant	Australia	100	100
RESIMAC Leasing Pty Ltd	Dormant	Australia	100	100
RESIMAC Leasing Services Ltd ⁵	Dormant	New Zealand	100	100
RESIMAC (UK) Ltd	Dormant	United Kingdom	100	100
SA Homeloans Pty Ltd ⁶	Dormant	Australia	100	100
Supermortgage Pty Ltd ¹¹	Dormant	Australia	100	100
Vic Homeloans Pty Ltd ⁶	Dormant	Australia	100	100
WA Homeloans Pty Ltd ⁶	Dormant	Australia	100	100

⁵ Deregistered 22 January 2018

⁶ Deregistered 15 November 2017

⁷ Deregistered 9 April 2018

⁸ Deregistered 19 March 2018

⁹ Deregistered 13 June 2018

¹⁰ Deregistered 24 May 2018

¹¹ Deregistered 29 May 2018

22. Subsidiaries (continuation)

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest held and voting power held by the Group	
			FY18	FY17
			%	%
Controlled trusts				
Avoca Master Trust	Issuer of RMBS ¹²	Australia	100	100
NZF Mortgages Warehouse A Trust	Warehouse mortgages	New Zealand	100	100
RESIMAC Bastille Master Trust	Issuer of RMBS ¹²	Australia	100	100
RESIMAC Triomphe Master Trust	Issuer of RMBS ¹²	Australia	100	100
RESIMAC Victoire Trust	Warehouse mortgages	New Zealand	100	100
RHG Mortgage Securities Trust	Issuer of RMBS ¹²	Australia	100	100
RMT Warehouse Trust No.2	Warehouse mortgages	Australia	100	100
RMT Securitisation Trust No.7	Issuer of RMBS ¹²	Australia	100	100
RESIMAC NIM Master Trust	Dormant	Australia	100	100

¹² Residential mortgage backed securities

22. Subsidiaries (continuation)

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 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 Consolidated Statement of Profit or Loss.

23. Associates and joint ventures

	FY18 \$'000	FY17 \$'000
Investments in associates	-	-
	-	-
Gain on sale of interests in joint ventures ¹	-	1,080
Total comprehensive income	-	1,080

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

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. Associates and joint ventures (continuation)

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	FY18	FY17
				%	%
Associate					
Finsure Holding Pty Ltd	Mortgage brokerage	30 June	Australia	16.2	28.6

The Group recognises its 16.2% interest in the Finsure Group as an investment in associate with a carrying amount of \$nil.

24. Acquisition of subsidiary

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 the 13 October 2016. This is the effective date of the acquisition. Control was deemed to have been obtained on the 13 October 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 the 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 reflected the administrative time required to implement the Scheme as opposed to continued control over the business by 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 had 393,687,080 shares on issue and RESIMAC pre-acquisition shareholders had voting power of 72.5%.

Accordingly, under the terms of the merger:

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

Accounting and disclosure implications of the merger

Under the accounting standards the merger of Homeloans and RESIMAC was 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 was deemed to be the acquirer for accounting purposes. The implications 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 FY18 information reflects the combined Homeloans Group results of RESIMAC as well as Homeloans for the 12 month period;
- The FY17 comparative financial information reflects RESIMAC only for the period 1 July 2016 to 12 October 2016 and the newly formed combined Homeloans Group results of RESIMAC, as well as Homeloans for the period 13 October 2016 to 30 June 2017; and
- Under accounting guidance, the consideration that RESIMAC was 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 was allocated to the fair values of Homeloans intangible and tangible assets, liabilities and contingent liabilities.

As a result of reverse acquisition accounting, a new equity account was 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.

24. Acquisition of subsidiary (continuation)

24.1 Summary of acquisition

A summary of the acquisition is as follows:

	\$'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

24.2 Assets acquired and liabilities assumed at date of acquisition

	Fair value \$'000
ASSETS	
Cash and cash equivalents	10,345
Trade and other receivables ¹	3,685
Loans and advances ¹	171,604
Other financial assets	66,957
Plant and equipment	711
	253,302
LIABILITIES	
Trade and other payables	5,672
Provisions	2,861
Current tax payables	564
Interest-bearing liabilities	177,715
Other financial liabilities	29,170
Derivative financial liabilities	33
Deferred tax liabilities	9,266
Lease incentives	100
	225,381
Fair value of identifiable net assets acquired (of Homeloans at 13 October 2016)	27,921
Goodwill arising on acquisition ²	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 were recognised as a result of the transaction.

24. Acquisition of subsidiary (continuation)

From the date of acquisition to 30 June 2017, Homeloans contributed \$34,126,031 of revenue and \$1,441,727 to the net profit before tax of the Group.

The goodwill has been assessed as not being deductible for tax purposes.

Subsequent to the acquisition accounting, goodwill becomes subject to impairment tests which are undertaken at least annually, or if and when there are indicators that goodwill may be impaired.

The accounting standards provide a restatement window 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. Final values were reported in the full year 30 June 2017 financial report.

25. Commitments and contingencies

	FY18	FY17
Group as lessee	\$'000	\$'000
Operating and finance lease commitments		
Within one year	2,711	2,555
Greater than one year but not more than five years	7,939	3,295
Greater than five years	3,154	-
	13,804	5,850
Group as lessor		
Operating lease commitments		
Within one year	455	96
Greater than one year but not more than five years	508	-
	963	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 \$1,965,223 (FY17: \$1,105,335). 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 Final dividend declared

The Board of Homeloans Limited declared a fully-franked final dividend of \$0.009 per share. The Record Date is 20 September 2018. The payment date will be 12 October 2018. The dividend has not been provided for in this financial report.

26.2 Athena investment

On 31 July 2018, the Company invested \$2m for a 4.26% stake in Athena Financial Pty Ltd.

26.3 Finsure/Goldfields Money

Goldfields Money (ASX: GMY) shareholders voted in favour of the merger with Finsure on 7 September 2018. Goldfields Money will acquire the shares in Finsure, and issue 15,385,000 new fully paid ordinary shares at an issue price of \$1.30 per share. The new shares commenced trading on the ASX on 17 September 2018.

The transaction will result in the Company's 16.2% in Finsure, converted to a 5.05% share in GMY on a fully diluted basis.

26.4 Funding programmes

The RESIMAC Bastille Series 2018-INC transaction was settled on 16 August 2018 and is a multi-currency non-conforming issue with a total issuance size of \$1 billion equivalent.

The Triomphe Trust Series No 5 was settled on 16 July 2018 and is a new \$315 million warehouse facility.

27. Auditor's remuneration

	FY18	FY17
	\$	\$
Fees of the auditors of the company for:		
Audit or review of the financial statements		
Deloitte Touche Tohmatsu	798,128	983,184
	798,128	983,184
Non-assurance related services		
Deloitte Touche Tohmatsu		
• tax compliance	133,827	133,261
• other advisory services	369,000	612,100
• services in connection with reverse acquisition	-	134,783
	502,827	880,144
Total paid to auditors	1,300,955	1,863,328

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 \$502,827 represents 38.7% of the total fees paid or payable to Deloitte and related practices for the year ended 30 June 2018.

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.

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	
	FY18 \$'000	FY17 \$'000	FY18 \$'000	FY17 \$'000
Associates of Homeloans Limited ¹	-	-	(12,404)	(3,688)
Other related parties of Homeloans Limited ²	-	7,261	-	-

1. Broker commission companies and sponsorship fees paid to Finsure Group.

2. Commissions received from two funders who were majority shareholders during FY17.

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	
	FY18 \$'000	FY17 \$'000	FY18 \$'000	FY17 \$'000
Other related parties of Homeloans Limited ¹	6,427	7,623	-	(9,838)

1. Loans due from KMP and related entities in Homeloans.

The amounts outstanding are secured 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. Related party transactions (continuation)

28.2 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 14 to 22 of this financial report designated as audited and forming part of the directors' report.

The remuneration disclosures is for Homeloans KMP only as presented in the Remuneration report.

	FY18	FY17
KMP compensation	\$	\$
Short-term benefits	1,519,339	1,639,049
Post-employment benefits	72,451	95,946
Long-term benefits	13,024	-
Termination benefits	213,350	-
Share-based payments	43,334	-
	1,861,498	1,734,995

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

29. Parent disclosures

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

	FY18 \$'000	FY17 \$'000
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current	25,410	23,276
Non-current	183,240	183,826
	208,650	207,102
LIABILITIES		
Current	26,545	36,551
Non-current	29,213	14,271
	55,758	50,822
NET ASSETS	152,892	156,280
EQUITY		
Issued capital	177,338	174,762
Reserves	539	496
Accumulated losses	(24,985)	(18,978)
	152,892	156,280
Attributable to members of the parent:		
Profit/(loss) after tax	532	(5,216)
Total comprehensive income for the period	532	(5,216)

29.1 Guarantees, contingent liabilities and contingent assets

At 30 June 2018, there are no financial guarantees, contingent assets or contingent liabilities (FY17: 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.

30. Share-based payments

30.1 Employee share option plan of the Company

The Company has a share option scheme for senior employees of the Company. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, senior employees may be granted options to purchase ordinary shares.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The option carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the current year:

	2018 LTI Tenure
Grant date	18 August 2017
Options granted (number)	1,800,000
Expiry date	
• Tranche 1	30 June 2021
• Tranche 2	30 June 2022
• Tranche 3	30 June 2023
Exercise price	\$0.55
Fair value at grant date	\$0.08

All options vested on their date of grant and expire within thirty six months (36) of their issue, or one month after the resignation of the senior employee, whichever is the earlier.

30. Share-based payments (continuation)

30.2 Fair value of options granted in the year

The primary valuation approach we have considered for the valuations is the Black-Scholes method, which entails the determination of the value of the options using comparable market equivalent information. In determining the fair value of each of the share options, a number of statistical and probability based calculations have been considered.

Granted in 2018 financial year

Inputs into the model	2018 LTI		
	Tranche 1	Tranche 2	Tranche 3
Grant date share price (\$)	\$0.47	\$0.47	\$0.47
Exercise price	\$0.55	\$0.55	\$0.55
Term	3.9 years	4.9 years	5.9 years
Annual volatility	30-35%	30-35%	30-35%
Risk-free interest rate	2.00%	2.15%	2.26%
Dividend yield	3.23%	3.23%	3.23%
Call option value	\$0.06-\$0.08	\$0.07-\$0.09	\$0.08-\$0.10
Issued options	600,000	600,000	600,000

30.3 Movements in share options during the year

The following reconciles the share options outstanding at the beginning and the end of the year:

	Number of options #	Fair value of grant \$
Balance at 1 July 2017	-	-
Granted during the year	1,800,000	145,822
Balance at 30 June 2018	1,800,000	145,822

30.4 Share options exercised during the year

No share options were exercised during the year.

30. Share-based payments (continuation)

30.5 Detail of share options held

The following table details the share options held at 30 June 2018:

Type of plan	Number of options (#)	Grant date	Vesting date	Expiry date	Exercise price (\$)	Call option value (\$)	Share price at grant date (\$)
<i>Tenure</i>							
MCWILLIAM, Scott	300,000	18 August 2017	1 July 2018	30 June 2021	0.55	0.07	0.47
MCWILLIAM, Scott	300,000	18 August 2017	1 July 2019	30 June 2022	0.55	0.08	0.47
MCWILLIAM, Scott	300,000	18 August 2017	1 July 2020	30 June 2023	0.55	0.09	0.47
	900,000						
PLOUGHMAN, Mary	300,000	18 August 2017	1 July 2018	30 June 2021	0.55	0.07	0.47
PLOUGHMAN, Mary	300,000	18 August 2017	1 July 2019	30 June 2022	0.55	0.08	0.47
PLOUGHMAN, Mary	300,000	18 August 2017	1 July 2020	30 June 2023	0.55	0.09	0.47
	900,000						
Total options held	1,800,000						

31. Other accounting policies

31.1 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 2018 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 15 Revenue from Contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The standard is effective for financial periods starting on or after 1 January 2018. The Company intends to report under AASB 15 for the first time in the half-year financial report as at 31 December 2018.

Management has established an AASB 15 working group in order to assess the implications of the new standard and to implement the new standard to ensure appropriate and consistent application across the Company's range of financial activities.

Work since our half-year financial report has included:

- Undertaking analysis of individual contracts and assessing the terms against the requirement of the standard; and
- Performing a quantitative analysis of the impact of the adoption of the standard to assess the classification, measurement and disclosure implications.

Under AASB 15, revenue is recognised when the performance obligations have been satisfied and when the goods and/or services underlying the particular performance obligation is transferred to the customer.

One of the Group's major source of income is origination and trailing commission on residential mortgages.

Currently, the origination and trailing commission receivables are measured and recognised under AASB 139, however from 1 July 2018, the present value of the trailing commission receivables will be recognised under AASB 15 as a contract asset. Under AASB 15, this will be measured using the expected value method. The impact of this change in revenue recognition is not expected to have a material impact on the Group's financial statements.

The Group's recognition of other sources of income are not expected to change materially under AASB 15.

AASB 9 Financial instruments

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;
- new general hedge accounting requirements; and
- recognition and de-recognition of financial instruments carried forward from AASB 139.

Unless early adopted the standard is effective for financial periods starting on or after 1 January 2018. The Company intends to report under AASB 9 for the first time in the half-year financial report as at 31 December 2018.

Key requirements considered most relevant to the Group are:

- All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Generally, debt investments that are held under a business model to collect the contractual cash flows, which consist solely of payments of principal and interest are measured at amortised cost at the end of subsequent accounting periods; and
- A new model in relation to the credit impairment of financial assets, being an expected credit loss model, as opposed to an incurred credit loss model under AASB 139.

31. Other accounting policies (continuation)

Based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2018, on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of AASB 9 to the Group's consolidated financial statements as follows:

Classification and measurement

- Loans and advances are held under a business model to collect the contractual cash flows, which consist solely of payments of principal and interest and as such will continue to be measured at amortised cost under AASB 9;
- Interest-bearing borrowings will continue to be measured at amortised cost under AASB 9;
- As noted above, future trail commission receivable will be accounted for under AASB 15 as a contract asset; and
- Trail commission payables will not be impacted and will remain a financial liability measured at amortised cost.

Credit loss impairment

- AASB 9 introduces the concept of forward-looking 'expected credit losses' (ECL) into the provision models which replaces the incurred loss model under the existing standard AASB 139. Provisions will be raised earlier and therefore this will lead to an increase in provisions compared to the incurred loss models. Due to the nature of the mortgage industry, the Group is exposed to the credit risk of the underlying loan books.
- The inclusion of a forward-looking component that anticipates changes in the economic environment will tend to increase volatility in provisions. However, earlier recognition of potential losses should also reduce the likelihood

of larger deferred increases in provisions in a downturn environment.

- The adoption of an ECL model is expected to result in an increase in the credit loss provision.

Hedge accounting

The new hedge accounting model under AASB 9 expands the scope of hedged items and permits hedge accounting to be applied more broadly, aligning it better to how the entity's risk management manages different types of risks. It removes the 80-125% rule for hedge effectiveness and does not permit hedge de-designation.

The hedge accounting reserve is not material and therefore it is not expected that the Group's current hedge accounting will be materially impacted by AASB 9.

31.2 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.

SIGNED REPORTS

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 s295(5) of the *Corporations Act 2001*.

On behalf of the Directors



Cholmondeley Darvall

Chairman and Non-executive Director

Sydney

27 September 2018

INDEPENDENT AUDITOR'S DECLARATION
HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

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

27 September 2018

Dear Board Members

Auditor's Independence Declaration to 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 2018, 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

A handwritten signature in black ink, appearing to read "Delarey Nell".

Delarey Nell
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited



Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

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 2018, the consolidated statement of profit or loss, the consolidated statement of 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 2018 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

INDEPENDENT AUDITOR'S REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Goodwill Impairment Assessment</p> <p>As at 30 June 2018, the group has goodwill of \$21.8 million as disclosed in Note 10.</p> <p>The Group is required to test goodwill annually. This assessment requires the exercise of significant judgement about forecasting future revenues and expenses, including discount rates applied to cash flows.</p> <p>Key judgements and estimates are used in preparing a discounted cash flow model ('value in use') which is used to assess the recoverability of goodwill including:</p> <ul style="list-style-type: none"> • Identification of Cash Generating Units; ("CGU's") • Future cash flows for the CGU's; • Discount Rates; and • Terminal value & growth rates. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • 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 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 weighted average cost of capital 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. <p>We also assessed the appropriateness of the disclosures in Note 10 to the financial statements.</p>
<p>Future trailing commissions</p> <p>As at 30 June 2018, the net present value of future trailing commissions receivable and payable by the Group is \$57.2 million and \$27.8 million respectively as disclosed in Note 7 and 13.</p> <p>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.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the key controls relevant to the approval and determination of the net present value of future trail commissions; • Challenging the reasonableness of management's assumptions applied, including discount rate and the run-off; • In determining the value of future trail commissions we assessed the assumptions by: <ul style="list-style-type: none"> - Benchmarking assumptions against market peers and external market data, and - Assessing management's assumptions against industry and economic indicators • Engaging our internal experts to independently develop a model, using the inputs and assumptions applied by management, to recalculate the valuation of trail commission receivable and payable. This was compared to management's valuation, in order to test the integrity and mathematical accuracy of management's model; • Confirming that the results from the different models are booked and presented correctly at the Group and company level; and • Assessing the accuracy and completeness of disclosures of the NPV results, significant areas of judgement, sensitivity of material assumption and other required disclosures in the annual report.

INDEPENDENT AUDITOR'S REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES



	We also assessed the appropriateness of the disclosures in Note 7 and 13 to the financial statements.
<p>Provisions for impairment of loans to customers</p> <p>As at 30 June 2018, the Group has a loan loss impairment provision of \$6.6 million as disclosed in Note 6.</p> <p>The Group records both a collective and specific loan loss provision on its loan portfolios in accordance with the relevant accounting standards.</p> <p>This credit loss provision represents an area of significant judgment and estimation for the Group given the level of assumptions applied in the modelling including, historic loss rates and recoverability.</p>	<p>Our procedures included, but were not limited to:</p> <p>Specific provision</p> <ul style="list-style-type: none"> To determine the completeness of the specific provision, we have performed an analysis of the portfolios to determine categories, which may be considered higher risk. This includes those which are not covered by LMI, >90 days in arrears and >80% LVR and determined if these loans are on the impairment register, and in the instance they are not, we have challenged management to assess reasonableness of not recognising any provision; Reviewing the hardship register and performed a dynamic LVR analysis over the portfolios to determine if there are any outliers, including, loans which may have a higher LVR due to live market data being applied, or those which are in areas of concern; and Selected on a sample basis, loans from the impairment register, and obtained the provision calculated by management to assess whether it was sufficient to cover any potential loan loss by agreeing relevant inputs. <p>Collective provision</p> <ul style="list-style-type: none"> Confirmed the completeness of the population used in the model by ensuring the pool cuts, which reconcile to the general ledger, were all included in the model. Challenged managements assumptions applied in the model through data analysis and benchmarking; Challenged PDs and LGDs by benchmarking to industry standard; Assessed managements overlay through performing back testing; and Assessed management's ability to forecast by comparing the prior period collective to actual losses. <p>We also assessed the appropriateness of the disclosures in Note 6 to the financial statements.</p>

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 2018, 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.

INDEPENDENT AUDITOR'S REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES



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 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.

INDEPENDENT AUDITOR'S REPORT

HOMELOANS LIMITED AND ITS CONTROLLED ENTITIES



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 pages 14 to 25 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of the Homeloans Limited, for the year ended 30 June 2018, 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

A handwritten signature in black ink, appearing to read "Delarey Nell".

Delarey Nell
Partner
Chartered Accountants
Sydney, 27 September 2018