

**HOMELOANS LIMITED ACN 095 034 003**  
**PRINCIPLES OF CORPORATE GOVERNANCE AS AT 24TH SEPTEMBER 2015**

**Principle 1 – Lay solid foundations for management and oversight**

**The role of the Board and delegations**

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

- appoint the Company's Chair
- oversee the conduct of the Company's business to evaluate whether the business is being properly managed and to ensure that it is conducted in an honest and ethical manner;
- ensure that adequate procedures are in place to identify the principal risks of the Company's business and delegate the implementation of appropriate systems to manage these risks to Board Committees and management;
- select, appoint, evaluate the performance of, determine the remuneration of, plan for the successor of, and removal of the Chief Executive Officer;
- ensure that adequate plans and procedures are in place for succession planning, including appointing, training and monitoring the performance of senior management;
- approve the operating budget and any significant expenditure;
- overseeing the integrity of the accounting and corporate reporting systems including the external audit;
- overseeing the process for making timely and balanced disclosure of all material information;
- adopt a strategic planning process and review the Company's financial objectives and major corporate plans and actions; and
- perform other functions as prescribed by law, or assigned to the Board to maximise shareholder value.

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

**Management responsibility**

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

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

**Appointment to directors**

Appointments to the position of non-executive director are based on recommendations of the Nomination and Remuneration Committee. Prior to the appointment of a non-executive director to the Board, the Nomination Committee decides on what pre-appointment checks will be carried out in the circumstances.

No new director has been appointed to the Board during the year.

All material information in respect of each director standing for election or re-election by shareholders at the Annual General Meeting are contained in the Explanatory memorandum to the Notice of Annual General Meeting.

**Performance of the Board**

The directors have undertaken self-assessments of their individual performances and also the performance of the Board as a whole, the performance of the chairman and the committees of the Board during the year.

## Executive performance assessment

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

The Company has a written agreement with each of the directors and also members of the Senior Executive team which sets out the terms and conditions of their appointment. The decision to appoint or remove the Company Secretary is made and approved by the Board.

The Board has undertaken an evaluation of the performance of the Chief Executive Officer during the year.

## Company Secretary

The Company Secretary is accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

## Diversity Policy

The Company believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives as discussed in Principle 3.

The directors recognise that having a diverse board (with at least one female member) will assist in effectively carrying out its role. However, at present the directors feel that the Board is functioning efficiently and that the size and structure of the Board is adequate for the extent of the Company's business operations.

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

The key elements of the diversity policy are as follows:

- Increased gender diversity on the Board and senior executive positions and throughout the Group.
- Annual assessment of Board gender diversity objectives and performance against objectives by the Board and Nomination committee.

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

	30 June 2015		30 June 2014	
	Female (%)	Male (%)	Female (%)	Male (%)
Gender representation				
Board representation	0%	100%	0%	100%
Key management personnel and other executive representation	29%	71%	29%	71%
Group representation	58%	42%	53%	47%

Gender diversity objectives	Progress Update as at 30 June 2015
1.Target the proportion of female employees within a range of 40-60% of total Group employees	The proportion of female employees stands at 58%, within the targeted range
2.Target the percentage of women in management positions at a level of at least 25%	The percentage of women in management positions stands at 43%, above the target level
3.Target total female representation at executive level of two	Female representation at executive level already stands at two
4.Aim to have one female director on the Board by June 2017	There were no female directors on the board as at 30 June 2015

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

The company has not made any new appointments to the Board since January 2013.

## Principle 2 – Structure the Board to add value

### Membership of the Board

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

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

Name	Position	Term in Office
R.N Scott	Chairman	14 yrs 11 months
R.P Salmon	Non – Executive Director	14 yrs 11 months
M. Starkey	Non – Executive Director	2 yrs 5 months

Scott McWilliam became Chief Executive Officer on 1 January 2013.

### Nomination and Appointment of New Directors

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

Procedure for the selection and appointment of new directors:

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

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

### Retirement and re-election of Directors

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

During the year, Mr R.N. Scott retired from the Board and was re-elected at the 2014 annual general meeting.

### Succession Planning

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

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

## **Director independence**

An independent director is not an executive or member of management and:

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

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

The Board does not consist of a majority of independent directors. The Board of Directors is of the opinion that the company is actually benefiting from having a founding director, given their experience in the industry and financial interest in the company, as well as other directors of the Board who have a broad experience in the mortgage lending industry.

## **Conflict of Interest**

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

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

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

## **Board Access to Information and Advice**

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

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

## **Board Committees**

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

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

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

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

## Board Skills Matrix

The following are the current skills, knowledge, experience and capabilities of the Board of Directors:-

<u>Area</u>	<u>Competence</u>
Leadership	Business leadership, Listed Public Company Board Experience
Industry and Sector	Mortgage industry and finance industry knowledge and experience
Business and Finance	Accounting, capital management, corporate finance, industry taxation, risk management, IT expertise, governance, business strategy, mergers and acquisitions, product management, pricing, Bank balance sheet management
Behavioural Competence	Operating as part of a team, public speaking, negotiation, strategic thinking, business analysis, product development, coaching

## Principle 3 – Promote ethical and responsible decision-making

### Code of Conduct

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

## Principle 4 – Safeguard integrity in financial reporting

### Integrity of Homeloans financial reporting

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

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

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

The primary functions of the Audit and Risk Management Committee are to:

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

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

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

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

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

## **Independent external audit**

The Company requires its independent external audit to:

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

The Company's independent external auditor is Ernst & Young (EY). External auditors are required to rotate the engagement partner assigned to the Company on a five year basis. Under this policy, the lead audit engagement partner assigned to the Company rotated at the conclusion of the 2012 financial reporting period. The Board has requested that EY attend the Company's annual general meeting, and that they be available to answer questions arising in relation to the conduct of their audit.

## **Principle 5 – Make timely and balanced disclosure**

### **Continuous disclosure policy**

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

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

## **Principle 6 – Respect the rights of shareholders**

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

All shareholders of the Company are encouraged to attend meetings of security holders and also to participate in such meetings.

The directors, company secretary and other key management personnel make themselves available to communicate with shareholders throughout the year so that they feel engaged with the Company.

Shareholders' meetings are held at central locations in the city in which most shareholders reside in order to encourage them to attend the meetings.

The Notice of Meeting and Explanatory Statement documents sent out to shareholders contain all relevant information relating to the meeting.

Shareholders are encouraged to ask questions of the directors and management at meetings and if they are unable to attend the meeting they are encouraged to send in questions on the Company's website which will be answered at the meeting.

The results of a meeting are released to the market as soon as practicable after the conclusion of the meeting.

Shareholders of Homeloans Ltd have the option of receiving and sending information to the Share Registry. Shareholders are encouraged to provide their email addresses to facilitate electronic communication with the Share Registry.

The Company's website has a direct link to the Share Registry website to facility shareholder communication with the Share Registry.

## **Principle 7 – Recognise and manage risk**

### **Risk management and compliance**

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

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

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

Given the size and nature of its operations, Homeloans does not have a formal internal audit function. Instead, it divides responsibility for internal audit activities between management and the audit and risk management committee. The audit and risk management committee regularly assess the adequacy of the internal risk control through the external auditors.

In addition, the Risk and Compliance function undertakes comprehensive audits and reviews of our credit representatives pursuant to our Australian Credit Licence and our authorised representatives under our Australian Financial Services Licence (AFSL).

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

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

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

The Board of Directors has undertaken a review of the Company's Risk Management framework during the year.

### **Assurance**

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

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

## **Business and sustainability risks**

The company does not consider that it has a material exposure to economic, environmental and social sustainability risks.

## **Principle 8 – Remunerate fairly and responsibly**

### **The Board Remuneration Committee**

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

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

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

Homeloans Ltd has an equity based remuneration scheme for its employees. Participants in the Company's Share Rights and Options Scheme are not permitted to enter into any type of transaction which would result in limiting the economic risk of participating in the scheme.

The Company's Share Rights and Options Plan prohibits a participant from being a party to or otherwise standing to benefit from a transaction or arrangement (whether through the use of derivatives or otherwise) which limits the economic risk associated with the Rights or Options.

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



## ASX Corporate Governance Council Best Practice Recommendations

Homeloans Limited complies with the 3rd edition of the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" which became effective from 1 July 2014 (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2015 and at the date of this report are outlined in the Corporate Governance Statement.

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

	ASX Principle	Compliance
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b> Companies should establish and disclose the respective roles and responsibilities of board and management.	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply
1.2	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply
1.3	Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.	Comply
1.4	Company secretary should be accountable to the Board	Comply
1.5	Companies should have a diversity policy which includes requirements for the Board to set measurable objectives for achieving gender diversity. Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Comply
1.6	Companies should disclose the process for evaluating the performance of the Board	Comply
1.7	Companies should disclose the process for evaluating the performance of senior executives.	Comply
<b>Principle 2:</b>	<b>Structure the board to add value</b> Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.	
2.1	A majority of the board should be independent directors.	Not comply <sup>(1)</sup>
2.2	The chair should be an independent director.	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Comply
2.4	The board should establish a nomination committee.	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b> Companies should actively promote ethical and responsible decision-making.	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Comply Comply Comply
<b>Principle 4:</b>	<b>Safeguard integrity in financial reporting</b> Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.	
4.1	The board should establish an audit committee.	Comply
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors</li> <li>consist of a majority of independent directors</li> <li>is chaired by an independent chair, who is not chair of the board</li> <li>has at least three members</li> </ul>	Not comply <sup>(1)</sup> Not comply <sup>(1)</sup> Not comply <sup>(1)</sup> Comply <sup>(1)</sup>
4.3	The audit committee should have a formal charter.	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply

<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b> Companies should promote timely and balanced disclosure of all material matters concerning the company.	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply
<b>Principle 6:</b>	<b>Respect the rights of shareholders</b> Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply
<b>Principle 7:</b>	<b>Recognise and manage risk</b> Companies should establish a sound system of risk oversight and management and internal control.	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply
<b>Principle 8:</b>	<b>Remunerate fairly and responsibly</b> Companies should ensure that the level and composition of remuneration is sufficient and responsible and that its relationship to performance is clear.	
8.1	The board should establish a remuneration committee.	Comply
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	Not comply <sup>(1)</sup> Not comply <sup>(1)</sup> Comply
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

1) The Board does not consist of a majority of independent directors. The Board of Directors is of the opinion that the company is actually benefiting from having a founding director, given their experience in the industry and financial interest in the company, as well as other directors of the Board who have a broad experience in the mortgage lending industry.