Homeloans

Providing Solutions

Homeloans
Annual Report

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Chairman's Report

On behalf of your Board, I am pleased to present the 2016 Annual Report for Homeloans Limited.

For the year ended 30 June 2016 (FY2016), Homeloans delivered another solid financial result, recording a statutory net profit after tax of $5.3 million, down from the previous financial year result of $5.6 million. This result was down on the previous year primarily due to costs incurred in relation to the proposed merger with RESIMAC Limited as announced on 20 July 2016. Adjusting for these costs and other one-off items, the net profit after tax was $5.8m.

The Company has continued to grow its presence on the east coast of Australia, with buoyant property markets in the eastern states contributing to the strong growth in settlements. By offering brokers and customers competitive products and quality of service, the Company continued to consolidate its position as a viable alternative to the major banks during FY2016.

During FY2016, the Company achieved strong growth of $1.2 billion in branded loan settlements, where a mortgage manager margin is received, up 17.7% from the previous year. Total loan settlements including branded and non-branded settlements were up 3.0% to $1.8 billion.

This was in a year characterised by industry wide responses to changes to investment loan and interest only products, historically low interest rates, and strong refinancing activity across all major states. The Company's unique funding position, diversity of products and investment in broker relationships has ensured consistent growth throughout the year.

Total Loans Under Management and Administration, including the securitisation portfolio, remained steady at $8.1 billion as at 30 June 2016. Higher margin Loans Under Management rose 3.6% to be $4.1 billion at 30 June 2016, with the Loans Under Administration portfolio reducing by 3.7%. These loan books continue to generate strong cash flows and underpin Homeloans' result.

As announced on 20 July 2016, the Company entered into a Scheme Implementation Agreement with RESIMAC Limited, under which the Company will merge with RESIMAC subject to approval by both the Company and RESIMAC shareholders. The Board expects to declare a final dividend of two cents per share fully franked prior to the completion of the merger, but in any event no later than 31 October 2016.

The payment of any dividend is subject to certain conditions as outlined in the Scheme Implementation Agreement issued to the ASX.

Australian Mortgage Market

Over the past financial year, the Australian home lending environment remained buoyant, aided by relatively low levels of interest rates and growth in real estate prices in many states across the nation. Increased regulatory attention and focus on investor lending and interest only loans did impact the settlement flow through the year, however the Company's diverse range of balance sheet and non-balance sheet funder relationships provided the flexibility to adapt to these changes. In addition, the Company's diversified product range and funding arrangements with both bank and non-bank lenders helped to ensure steady growth through the year. Refinancing activity was also a key driver during the year as borrowers sought to take advantage of competitive rates in the market.

Expansion and Growth

During FY2016, the Company continued to focus on developing its Third Party distribution capabilities across Australia. The investment in sales force capabilities in the prior years, including the acquisition of Barnes Mortgage Management Pty Ltd in February 2015, has helped support the growth in settlements during the year. We continue to be supported by strong operating cash flows and are well placed to meet ongoing funding requirements.

Our focus is on providing a diverse and competitive suite of products which, when delivered in combination with our existing strong third-party broker relationships, continues to support the growth in settlements and maintain profitability.

Going Forward

We expect general market conditions to remain positive in most states going into the new financial year. Settlement pipelines remain strong, despite apparent weakness in the property markets of Western Australia and parts of Queensland. The Company remains confident that the positive trend in submission and settlement activity in the second half of the financial year will continue into FY2017.

With an established pattern of delivering settlements growth through the current distribution structure, the Company is well placed to further leverage, and build on, its relationships with brokers and retail networks. In a changing regulatory landscape, which has impacted investor and interest only loans, non-bank lenders continue to establish their position as a viable alternative to the major banks. In addition, with its diversified funding base, the Company is well placed to continue capitalising on these changes.

Our strategy remains unchanged – that is, to grow and diversify the business. The proposed merger with RESIMAC, which has established, highly regarded product manufacturing and funding capabilities, strongly supports this objective and provides an opportunity to accelerate the Company's ability to increase settlements and pursue other growth opportunities.

On behalf of the Board, I would like to thank our management team and all our staff for their commitment and efforts over the past year. Thank you also to our key stakeholders, business partners and shareholders for their ongoing support. I would also like to thank my fellow Directors for their contribution and support throughout the year.

Robert Scott
Chairman

Chief Executive Officer’s - Year in Review

Financial Results

Homeloans recorded a statutory net profit after tax (“NPAT”) of $5.3 million for the year ended 30 June 2016 (“FY2016”), and normalised NPAT of $5.8 million after adjusting for transaction and restructuring costs. Net fee and commission income was up 6.8% for the year whilst cost growth was modest after allowing for the costs associated with the proposed merger with RESIMAC Limited.

Lending Volume Growth

The Company experienced year on year lending growth during FY2016, in particular within its core business of Homeloans branded loans, of which settlements grew 17.7% for the year to $1.2 billion. This growth was achieved during a year of intense competition, as well as tightening of lending practices which led to a decline in certain market segments, in particular the investment loan market.

See Chart A for year-on-year branded settlements. The value of the Loans under Management is shown in Chart B.

We are pleased with branded loan settlement growth, which reflects the success of building our east coast presence as demand softens in some key markets, such as WA. The Company’s reputation for delivering quality service to the broker market as a viable alternative to the major lenders in the market continues to grow.

Distribution

Homeloans’ distribution capabilities to reach Australian borrowers can be classified under two distinct distribution channels:

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

The volume of home loans originated by mortgage brokers remains strong, with this channel representing more than 50% of all new loans acquired in Australia. Given the relevance and importance of this channel in the home mortgage market, we remain focused on supporting and growing the existing relationships we have with our broker partners as a key component of our distribution strategy. As a result, total branded settlement volumes through the third party channel increased by 21% during FY2016.

During the year we have enhanced productivity by increasing support for front line staff whilst continuously evolving our on-boarding processes. Our investment in previous years to build capability on the eastern seaboard has resulted in annual growth of 27.4% (vs 27.5% in FY2015) across New South Wales, Victoria and Queensland, including a 50.9% increase in Victoria alone.

Brand Development

Our brand strategy focusses on positioning Homeloans as first choice home loan specialist, with the provision of a comprehensive range of home loan solutions to a broad spectrum of market segments.

As part of this, our customer relationship management strategy aims to cultivate a positive affinity towards the Homeloans brand. This strategy is applied across both the retail and the third-party channels, with the aim of optimising the experience for borrowers and brokers alike, encouraging retention and referrals to our business.

Chart A: Homeloans Branded Loan Settlements ($m)

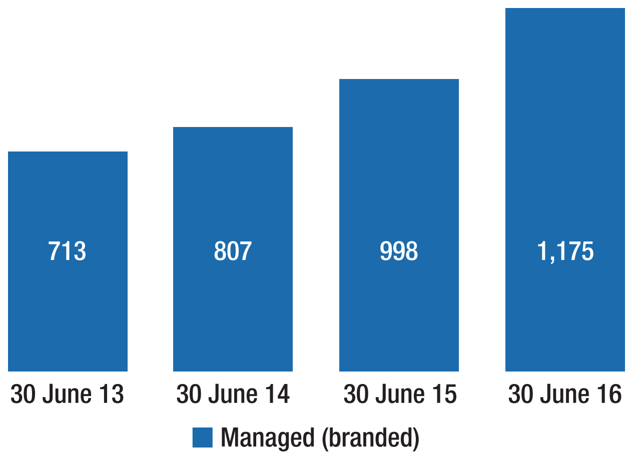
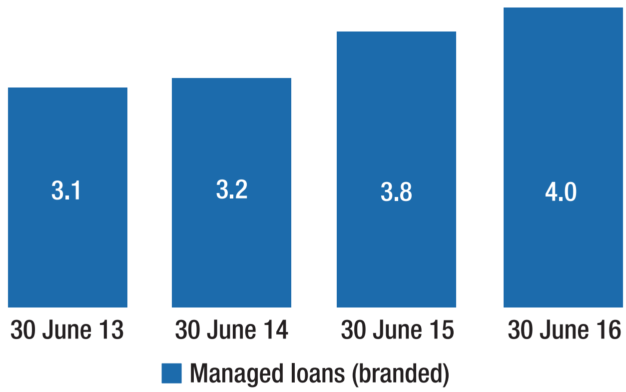


Chart B: Homeloans Branded Fund Under Management ($bn)



Our success in positioning Homeloans as a leading lender in the market has been heralded by the industry, with two notable awards being received in 2016. Mortgage Professionals Australia (MPA) magazine named Homeloans as the country's best Non-Bank Lender, while The Adviser magazine crowned Homeloans as the industry's best Mortgage Manager. The MPA award drilled down into 12 categories, with Homeloans coming first in 10 of them. These awards are highly regarded within the industry, with the winners being determined based on evaluation by mortgage brokers Australia-wide.

Our relationship with the Perth Scorchers in the T20 Big Bash League competition continued for a third year in FY2016. This arrangement has provided significant national exposure, with the Homeloans brand being prominently displayed on player apparel and ground signage. Perth Scorchers matches reached a cumulative television audience of 8.8 million viewers in the BBLI05 competition (2015/16), and despite the Scorchers being Perth-based, 88% of the television audience was located outside of Western Australia. As well as raising brand recognition and recall among prospective clients, the prominence of the Homeloans brand assists brokers in recommending Homeloans to their clients. Our association with the Perth Scorchers has also assisted in fostering broker relationships via hospitality and on-field experience opportunities.

We also continued our association with Australian Rules footballer, Matthew Pavlich, as our brand ambassador, a relationship that is now into its seventh year. Matthew's profile is used to promote the organisation, and he conducts a number of formal and informal broker engagement events.

Funding and Operations

During the year, the majority of work was completed on a major project to replace and upgrade IT systems that form the Company's core mortgage management platform. This project will provide efficiency across a variety of Company operations as well as improving broker service. This project is scheduled for implementation in the first half of 2017 financial year.

Homeloans maintained strong relationships with its broad base of wholesale funding partners which provide white label products that are then branded as Homeloans loans. This group of partners includes Bendigo and Adelaide Bank, Advantedge (division of National Australia Bank), Pepper Home Loans, Resimac and Macquarie Group. Specialist lender, RedZed Lending Solutions became a new wholesale funding partner in the year to further broaden the product suite available. The diversity of funding relationships ensures we are able to constantly adapt our products, working with our funding partners, to maintain and strengthen our positioning in the mortgage market.

Homeloans' proprietary funding line, Residential Mortgage Trust (RMT), continued to fund a portion of new loan settlements during the year. Additionally, we continued to roll over our warehouse funding line with Westpac and maintain regular discussions regarding the future utilisation of the facility and the products offered through this funding line. The RMT loan portfolio balance at year end was in line with the prior year, as new originations matched run off of existing loans in the portfolio.

We continue to generate strong operating cash flows emanating from the underlying annuity stream derived from the loan book under management, as well as the value of new settlements.

Financial Year 2017 and Beyond

Homeloans remains well placed to achieve the Company's strategic objective of growing and diversifying the business, and the proposed merger with RESIMAC Limited aligns strongly with this objective and provides a robust growth platform for the combined group.

As a stand-alone business, we remain optimistic on the outlook for FY2017 with settlement pipelines for the first quarter in line with expectations. Given the ongoing strength in the third party broker market, record low interest rates and stable economic conditions we are well placed to capitalise on the relationships and product depth we have built and invested in over the recent years.

In closing, I would like to thank our employees and stakeholders for their contribution and ongoing commitment over the past year. I also thank our shareholders for their continued support. I look forward to a potentially transformational FY2017 for the Homeloans business.

Scott McWilliam
Chief Executive Officer

Directors' Report

The Directors of Homeloans Limited present their report together with the financial report consisting of Homeloans Limited ('the company', 'parent' or 'Homeloans') and its controlled entities ('the Group') for the financial year ended 30 June 2016 and the independent auditor's report thereon.

Board of directors

Robert Scott

Chairman

Term: Chairman since November 2014, non-executive director since November 2000.

Skills and experience:

Rob is a Chartered Accountant with over 37 years' experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995.

Rob is chairman of the company's Audit and Risk Management committee and is a member of the company's Nomination and Remuneration committee.

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- Non-executive director of Lonestar (US) Inc. (since July 2016);
- Non-executive director of RTG Mining Inc. (since 2013);
- Non-executive director of Sandfire Resources NL (since July 2010);
- Chairman of Manas Resources Limited (resigned March 2014); and
- Director of CGA Mining Limited (resigned January 2013). This company has since been deregistered.

Robert Salmon

Non-executive director

Term: Non-executive director since November 2000.

Skills and experience:

Rob has 46 years' experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans.

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

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- No Directorships held of listed companies over the last three years.

Michael Starkey

Non-executive director

Term: Non-executive director since February 2013.

Skills and experience:

Michael is the acting Executive General Manager, Deposits and Transaction Services at National Australia Bank (NAB).

Michael has extensive experience in the financial service industry with a focus on consumer and business banking. Since joining NAB in 2009, he has led Personal Banking Strategy, Digital and Direct Channel Development and the Deposits product team.

Before joining NAB, Michael was Managing Partner at Corporate Value Associates, a boutique strategy firm. In 1999, Michael co-founded iSelect a successful insurance comparison website now listed on the Australian Stock Exchange (ASX).

Directorships of listed entities (last three years), other directorships/offices (current and recent):

- No Directorships held of any listed companies over the last three years.

Directors' shareholdings

Securities in the company or in a related body corporate in which directors had a relevant interest as at the date of this report are:

	Number of ordinary shares	Number of rights over ordinary shares
R Salmon	10,977,449	Nil
R Scott	2,156,116	Nil
M Starkey	Nil	Nil

Directors

The directors in office at the date of this report are:

- R Scott (Chairman)
- R Salmon
- M Starkey

All directors served on the Board for the period from 1 July 2015 to 30 June 2016.

The qualifications, experience, special responsibilities and other details of the directors in office at the date of this report appear on page 6 of this report.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Board committees) held during the year ended 30 June 2016 and the number of meetings attended by each director:

			Committees			
	Board Meetings		Audit and Risk Management		Nomination and Remuneration	
Director	**(A)**	**(B)**	**(A)**	**(B)**	**(A)**	**(B)**
R Scott	8	8	3	3	1	1
R Salmon	8	8	3	3	1	1
M Starkey	8	8	3	3	1	1

(A) number of meetings eligible to attend.

(B) number of meetings attended.

Company Secretary

Jennifer Murray was appointed company secretary to Homeloans on 9 November 2000. She is a Chartered Secretary and has over 32 years' experience in providing corporate secretarial services for both public and proprietary companies. She was previously the Senior Manager, Corporate Secretarial Services for Perth based Gooding Partners Chartered Accountants. Jennifer joined Homeloans as an employee on 11 March 2013.

Results and dividends

The information appearing on pages 8 to 25 forms part of the directors' report for the financial year ended 30 June 2016 and is to be read in conjunction with the following information:

	CONSOLIDATED	
	2016	2015
Year ended 30 June	**$'000**	$'000
Profit		
Profit attributable to ordinary equity holders of the parent	**5,253**	5,608
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 2016:		
(a) out of the profits for the year ended 30 June 2015 and retained earnings on the fully-paid ordinary shares:		
• fully-franked final dividend of 2.0 cents (2015: 2.0 cents) per share paid on 5 October 2015.	**2,113**	2,102
(b) out of the profits for the half year ended 31 December 2015 and retained earnings on the fully-paid ordinary shares:		
• fully-franked final dividend of 2.0 cents (2015: 2.0 cents) per share paid on 31 March 2016.	**2,120**	2,099
(c) out of the profits for the full year ended 30 June 2016 and retained earnings on the fully-paid ordinary shares:	**TBD [1]**	2,113
• fully-franked final dividend of 2.0 cents (2015: 2.0 cents) per share.		
The Company's Dividend Reinvestment Plan (DRP) will not apply to the final dividend.		

[1] The Board of Homeloans Limited expects to declare a final dividend of 2.0 cents per share prior to the completion of the RESIMAC transaction, but in any event no later than 31 October 2016. This is contingent on the transaction completing and the outstanding share rights vest. The payment of any dividend is subject to certain conditions as outlined in the Scheme Implementation Agreement announced on 20 July 2016.

Principal activities

The principal activities of entities within the consolidated entity during the year were:

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

Review of results and operations

On a statutory basis, net profit after tax (NPAT) for the year was $5,253,000 down from the previous financial year result of $5,608,000.

On a normalised basis, net profit after tax was $5,751,000 down on the comparable prior year result of $5,868,000. Refer to table 1 on page 10.

The Group has achieved strong growth in settlements and delivered another sound full year financial result with 2 cents per share interim dividend paid during the year and a final dividend of 2 cents per share expected to be declared prior to the completion of the merger but in any event no later than 31 October 2016.

Segment results

The Group's segment results reflect the two key elements of profitability for the company.

The Origination and Management segment incorporates both Third Party Broker and Direct sales channels and reflects the revenue and expense associated with new loan originations and the ongoing trail which is accounted for on a Net Present Value (NPV) basis.

The Securitisation of Mortgages segment represents the net interest margin earned on loans funded through the Group's RMT.

On an operating segment basis (see segment information on page 34) revenue from the Origination and Management was up 4.0% to $46,167,000 whilst the Securitisation of Mortgages segment revenue was down 10.3% to $10,772,000.

Total loan settlements were up by 3% on the previous financial year to $1.84 billion. Branded loan settlements, where a mortgage manager margin is received, accounted for the majority of this, increasing 17.7% to $1.2 billion as a result of the Group's continued investment and focus on growing distribution, particularly in the eastern states combined with good levels of market activity throughout the year.

Loan balances under management and administration by the Group were $8.1 billion in line with the $8.1 billion as at 30 June 2015. The Group has continued to grow its branded managed loan book, achieving growth of 3.6% to $4.0 billion as at 30 June 2016, reflecting ongoing focus on providing a competitive offering and developing key broker relationships.

Total net fee and commission income was $16,381,000, up 6.8% from $15,336,000. Net loan origination income was down $373,000 or 14.1% reflecting increased upfront origination costs absorbed, whilst net management income was up $1,418,000 or 11.2% reflecting volume growth and margin improvement.

The securitised loan portfolio is down marginally to $181,142,000 (2015: $200,438,000).This portfolio has reduced during the period reflecting the run off of this portfolio exceeding new loans being written. As a consequence of the reduction in this portfolio, and the unwinding of the interest on the NPV of the trailing commission, net interest income was down from $7,849,000 to $7,247,000.

Total operating expenses were up 3.8% to $16,569,000 (2015: $15,959,000).

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

RESIMAC merger

As advised to the market on 20 July 2016, the Group has entered into a Scheme Implementation Agreement (SIA) with RESIMAC Limited (RESIMAC) under which Homeloans will merge with RESIMAC subject to approval by both Homeloans and RESIMAC shareholders. Certain costs were incurred during the year in relation to this assessment and preparation for this transaction. After allowing for these transaction advice costs and other one-off restructuring of $806,000 (2015: $515,000), underlying expenses were up 2.4% on the previous financial year.

Warehouse facility

The Group's warehouse facility has been extended for a further 12 months to 30 June 2017. The Group re-commenced writing new loans into the warehouse facility in the 2013 financial year and continued to write a proportion of new business volumes through the warehouse facility. It should be noted that the warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income. The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

Outlook

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

The Group expects residential lending activity to remain buoyant going into the first quarter of FY2017 with some states experiencing stronger levels of activity than others. With an established pattern of delivering settlements growth through the current distribution structure, Homeloans is well placed to further leverage, and build on, its relationships with brokers and retail networks. In a changing regulatory landscape, which has impacted investor and interest only loans, non-bank lenders continue to establish their position as a viable alternative to the major banks. With the company's diverse range of balance sheet and non-balance sheet funder relationships, combined with a national footprint and an ongoing focus on growing relationships with third party brokering partners, the Board is confident that loan settlement momentum will continue into the new financial year.

The Group remains well positioned to achieve its strategic objective of growing and diversifying the business in the year ahead. The proposed merger with RESIMAC will result in establishing highly regarded product manufacturing and funding capabilities, which will further accelerate the Group's ability to increase settlements and pursue other growth opportunities.

Unaudited non-IFRS information

The following table reconciles the unaudited underlying earnings to the reported profit before tax for the period in accordance with Australian Accounting Standards. Management believe the disclosure of the normalised profit after tax provides additional insight into the underlying performance for the period.

	CONSOLIDATED	
	2016	2015
	$'000	$'000
Statutory profit after tax	**5,253**	5,608
Add/(less) adjustments		
Restructuring costs and corporate advice costs	**806**	515
RMT cash flow re-estimation benefit	**(95)**	(143)
Total adjustments	**711**	372
Taxation on adjustments	**(213)**	(112)
Normalised profit after tax	**5,751**	5,868

Change in state of affairs

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

Likely developments

Likely developments in the group entities known at the date of this report are included in the review of results and operations section on page 9.

Events after the reporting period

The following significant events have arisen since the end of the financial year:

RESIMAC merger

As advised to the market on 20 July 2016, the Group has entered into a SIA with RESIMAC under which Homeloans will merge with RESIMAC subject to approval by both Homeloans and RESIMAC shareholders. Further details on the transaction are detailed in the announcement released to the Australian Securities Exchange on 20 July 2016 and note 22.

Final dividend to be determined

The Board of Homeloans Limited expects to declare a final dividend of 2.0 cents per share prior to the completion of the RESIMAC transaction, but in any event no later than 31 October 2016. This is contingent on the transaction completing and the outstanding share rights vesting.

The payment of any dividend is subject to certain conditions as outlined in the SIA announced on 20 July 2016.

The Company's DRP will not apply to the final dividend.

Non-audit services

Ernst & Young (EY) provided non-audit services to the consolidated entity during the year ended 30 June 2016 and received, or is due to receive, the following amounts for the provision of these services:

Type of service	$
Tax and compliance services	19,776
Due diligence services	149,052
Total non-audit services	**168,828**

The total non-audit services fees of $168,828 represents 37.1 per cent of the total fees paid or payable to EY and related practices for the year ended 30 June 2016.

The Audit and Risk Management Committee has provided the Board with advice in relation to the provision of non-audit services by EY.

The Board has considered the Audit and Risk Management Committee's advice, and the non-audit service provided by EY, and is satisfied that the provision of these services during the year by the auditor is compatible with, and did not compromise, the general standard of auditor independence imposed by the *Corporations Act 2001* for the following reasons:

- the non-audit services provided do not involve reviewing or auditing the auditor's own work or acting in a management or decision-making capacity for the company;
- all non-audit services were subject to the corporate governance procedures and policies adopted by the company and have been reviewed by the Audit and Risk Management Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- there is no reason to question the veracity of the auditor's independence declaration (a copy of which has been reproduced on page 26).

Environmental regulation

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

Insurance and indemnification of directors and officers

During or since the end of the financial year, the company has paid premiums in respect of a contract insuring all directors and officers of Homeloans Limited and its related entities against certain liabilities incurred in that capacity. Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance.

In accordance with the company's constitution, the company has entered into Deeds of Indemnity, Insurance and Access with each of the directors of the company. These Deeds:

- indemnify a director to the full extent permitted by law against any liability incurred by the director:

    (i) as an officer of the company or of a related body corporate; and

    (ii) to a person other than the company or a related body corporate, unless the liability arises out of conduct on the part of the director which involves a lack of good faith;
- provide for insurance against certain liabilities incurred as a director; and
- provide a director with continuing access, while in office and for a specific period after the director ceases to be a director, to certain company documents which relate to the director's period in office.

In addition, the company's constitution provides for the indemnity of officers of the company or its related bodies corporate from liability incurred by a person in that capacity.

No indemnity payment has been made under any of the documents referred to above during or since the end of the financial year.

Indemnification of auditors

The company's auditor is EY.

The company has agreed with EY, as part of its terms of engagement, to indemnify EY against certain liabilities to third parties arising from the audit engagement. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by EY.

During the financial year:

- the company has not paid any premium in respect to any insurance for EY or a body corporate related to EY; and
- there were no officers of the company who were former partners or directors of EY, whilst EY conducted audits of the company.

Directors' and other officers' remuneration

Discussion of the Board's policy for determining the nature and amount of remuneration for directors and senior executives and the relationship between such policy and company performance are contained in the remuneration report on pages 13 of this financial report.

Share rights

As at 30 June 2016, there were 2,520,383 unissued ordinary shares under rights (2015: 2,001,444).

243,306 shares were issued subsequent to the balance date in relation to the vesting of the short-term incentives for the 2015 financial year.

Share options

No options over unissued shares in the company were in existence at the beginning of the financial year or granted during, or since the end of the financial year.

Proceedings on behalf of the company

No proceedings have been brought on behalf of the company, nor have any applications been made in respect of the company under section 237 of the *Corporations Act 2001.*

Corporate governance

In recognising the need for high standards of corporate behaviour and accountability, the directors of Homeloans support and have followed the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

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

The full corporate governance statement is available on the Corporate Governance section of the company's website at **www.homeloans.com.au/investor-relations/corporate-governance/**

Corporate information

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The company's registered office and principal place of business is Level 5, 50 St Georges Terrace, Perth, Western Australia.

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest thousand dollars ($'000) unless otherwise stated (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191. The company is an entity to which this instrument applies.

Auditor's independence declaration

The auditor's independence declaration is included on page 26 of this financial report for the year ended 30 June 2016.

This report is made with a resolution of the Directors.

Remuneration report (audited)

Contents

Key management personnel

The key management personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the Homeloans business. The KMP comprises:

Executives

S McWilliam, Chief Executive Officer (CEO);

I Parkes, Chief Financial Officer (CFO); and

R Hair, General Manager – Sales.

Directors

R Scott, Chairman;

R Salmon, Non-executive director; and

M Starkey, Non-executive director.

Executive KMP remuneration

1. Introduction

This report outlines how Homeloans performance for the 2016 financial year has driven the remuneration outcomes for executive KMP.

During the year, the Board reviewed the remuneration framework to ensure it aligns with the Group's strategy and business objectives.

The outcome of this review was that the Board decided to leave the performance conditions unchanged under the Homeloans Long Term Incentive (LTI) (to be granted in the 2016 financial year) such that Performance against ASX Small Ordinaries Index Total Shareholder Return (TSR) and the Compounded Annual Growth Rate (CAGR) of the TSR of Homeloans remains each at a 50 per cent weighting.

1.1 Key messages

The Homeloans Limited Board is committed to an executive remuneration framework that is focused on driving a performance culture and linking executive pay to the achievement of the Group's strategy and business objectives and, ultimately, generating satisfactory returns for shareholders.

Executive KMP remuneration is set at levels which are competitive with executives in comparable companies and roles. This is vital to attracting and retaining the best people, and reflects the executive's contribution, competencies and capabilities.

Executive KMP remuneration information is disclosed in section 3.6. A summary of the key changes to remuneration-related matters is set out below:

(a) Short-term incentive (STI) granted during the year

Section 3.3 provides details and total amounts granted to the KMP for the 2016 financial year.

(b) LTI vesting in the year

Performance rights

No LTI performance rights vested during the year.

Tenure rights

During the year, 233,249 tenure rights for all KMP vested relating to the 2014 financial year. Refer to section 3.5 for more detail.

(c) STI vested during the year

During the year, 63,476 STI rights for two KMP vested relating to the 2014 financial year. Refer to section 3.5 for more detail.

(d) Fixed remuneration

There were increases in fixed remuneration for Mr McWilliam and Mr Parkes.

(e) CEO remuneration

Mr McWilliam's fixed remuneration increased from $342,295 to $350,000.

His total reported remuneration for the 2016 financial year was $669,886 (2015: $654,167). This includes a share-based payment expense of $120,967 (2015: $153,084).

Excluding the share-based payment expense, Mr McWilliam's remuneration for the year was $548,919 (2015: $501,083) which comprised:

- fixed remuneration;
- post-employment benefits (including superannuation); and
- annual STI relating to the 2016 financial year. This was paid in 100% cash.

2. Objectives

Homeloans is committed to executive KMP remuneration that is focused on:

- driving a performance culture; and
- linking executive pay to the achievement of the Group's strategy and business objectives.

The overriding objective is to provide satisfactory returns to shareholders and focus on driving the leadership performance and behaviours consistent with achieving this objective.

Our executive KMP remuneration comprises:

- fixed annual remuneration (FAR);
- an STI; and
- a LTI.

2.1 Remuneration components

The table provides a snapshot of the components and the way in which each element of remuneration has been structured to support Group business objectives and to align with the generation of shareholder wealth.

<table>
<tr><th>Component</th><th>Performance measure</th><th>At risk weight</th><th>Strategic objective/performance link</th></tr>
<tr><td>FAR >

Salary and other benefits (including statutory superannuation)

+</td><td>Key results areas for the role: >

As outlined in the position description</td><td>></td><td>Remuneration set at competitive levels, to attract and engage key talent.

Considerations:
- Role and responsibility;
- Business and individual performance;
- Internal and external relativities; and
- Contribution, competencies and capabilities.</td></tr>
<tr><td>STI >

Cash for target performance

25% deferral (of portion of cash award into shares)

+</td><td>Group Financial measures (for Group Executives): >

Group NPAT

Business units (for business unit executives)
• Loan originations
• Customer service
• Risk management
• Product management
• Leadership and team contribution

Non-financial measures (for both)
• Specific strategic and other targets as set by the Board.</td><td>CEO: >
40% of FAR

Others:
7-25% of FAR</td><td>• Rewards performance at Group level. The financial performance measures were chosen principally because Group profit should drive dividends and share price growth over time.
• Recognises and rewards achievement of business unit goals in the areas of earnings and specific strategic targets.
• Recognises and rewards achievement of business objectives.
• Drives leadership performance and behaviours consistent with achieving the Group's long-term objectives in areas including diversity, succession planning and talent management.
• Aligns to the Group's material business risks, including strategy execution (earnings delivery) and loss of key management personnel (succession planning).</td></tr>
<tr><td>LTI >

Performance rights

Tenure rights

+</td><td>1) CAGR of the TSR (50% weighting) >

2) TSR (50% weighting)
Relative to ASX Small Ordinaries Index
Measured over three year performance period.

Continued employment
No performance hurdles</td><td>CEO: >
40% of FAR

Others:
25% of FAR</td><td>• Ensures a strong link with the creation of shareholder value.
• CAGR was chosen as a performance hurdles as it is a key metric to measure Homeloans long-term success as it contains clear links to shareholder value creation.
• Small Index TSR was chosen because it provides a relative external market performance measure having regard to Homeloans ASX Small Ordinaries Index peers.</td></tr>
<tr><td colspan="4">= TOTAL REMUNERATION The remuneration mix is designated and structured to reward executives for performance at Group level, and for business unit executives, also at a business unit level, and to align executive and stakeholder interests through share ownership.</td></tr>
</table>

3. Outcomes

3.1 Overview of company performance

The table below summarises details of Homeloans performance for key financial measures over the past five financial years.

Financial year ended 30 June	**2016**	2015	2014	2013	2012
NPAT ($'000)	**5,253**	5,608	6,205	7,736	8,110
Total dividends per share (cents)	**2.0**[2]	4.0	5.0	6.0	6.0
Dividend payout ratio (%)	**80.5**	75.0	85.5	82.7	78.9
Closing share price (cents as at 30 June)	**44.0**	58.0	75.0	94.5	58.0
Basic earnings per share (cents)	**4.96**	5.33	5.84	7.26	7.67
Return on equity (%)	**11.9**	13.3	14.7	17.9	20.2
Return on assets (%) [1]	**1.8**	2.0	2.1	2.3	2.0

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

[2] The Board of Homeloans Limited expects to declare a final dividend of 2.0 cents per share prior to the completion of the RESIMAC transaction, but in any event no later than 31 October 2016. This is contingent on the transaction completing and the outstanding share rights vesting.

3.2 Fixed annual remuneration

Homeloans practice is to increase fixed remuneration based on the following factors:

- inflation or indexation; or
- where there has been a material change in role or responsibility; or
- the market rate for comparable roles rising materially; or
- as a result of internal relativities.

3.3 STI overview

The details of Homeloans STI are set out in section 3.7. The STI is designed to reward performance against measures developed for each of the KMP based upon their areas of responsibility.

For the KMP, these include measures of Group performance – specifically:

- Group NPAT; and
- other strategic targets set by the Board.

(a) STI outcomes – 2016 financial year

The STI relating to the 2016 financial year was granted during the year as follows:

Name	Total award $	Cash $	Rights $	Forfeited %	% rights granted [1] %
S McWilliam	150,000	150,000	-	0%	0%
I Parkes	70,000	70,000	-	0%	0%
R Hair	60,000	60,000	-	0%	0%

[1] % of rights granted of the total 2016 financial year STI .

3.3 STI overview (continued)

Due to the potential merger with RESIMAC, for the 2016 financial year:

- the STI will be settled in 100% cash; and
- there will be no deferred rights awarded.

The cash payments were made on the 8 September 2016. Refer to note 22 for more detail.

3.4 LTI overview

The LTI is issued as performance rights granted under the LTI. Key terms of this scheme are detailed in section 3.7.

(a) LTI 's granted during the year

Performance rights were granted to all three KMP for the 2016 financial year on 1 January 2016 and are split into three tranches, subject to performance periods and performance hurdles detailed in section 3.7.

	Performance hurdle	Tranche	Rights granted	Fair value per right	Value at grant [1]
		#	$	$	$
S McWilliam	50% CAGR of TSR	1	49,020	0.22	10,780
		2	49,020	0.21	10,294
		3	49,020	0.19	9,314
	50% performance	1	49,020	0.24	11,765
	against ASX Small	2	49,020	0.25	12,255
	Ordinaries Index TSR	3	49,020	0.24	11,765
I Parkes	50% CAGR of TSR	1	21,008	0.22	4,622
		2	21,008	0.21	4,412
		3	21,008	0.19	3,992
	50% performance	1	21,008	0.24	5,042
	against ASX Small	2	21,008	0.25	5,252
	Ordinaries Index TSR	3	21,008	0.24	5,042
R Hair	50% CAGR of TSR	1	21,884	0.22	4,814
		2	21,884	0.21	4,595
		3	21,884	0.19	4,158
	50% performance	1	21,884	0.24	5,252
	against ASX Small	2	21,884	0.25	5,471
	Ordinaries Index TSR	3	21,884	0.24	5,252

[1] For accounting purposes, the fair value at grant is shown above, in accordance with AASB *2: Share-based Payment.* The rights are subject to two market conditions performance hurdles: - Performance against ASX Small Ordinaries Index and the CAGR of TSR . This has been independently valued using Hoadleys Hybird ESO Model.

3.4 LTI overview (continued)

(b) STI and LTI rights vested during the year

Performance rights

STI

63,476 STI rights for the 2014 financial year vested during the year.

LTI

No LTI performance rights vested during the year.

Tenure rights

233,249 tenure rights for the 2014 financial year vested during the year for all three KMP.

3.5 Summary of awards held under Homeloans share rights

The table below sets out details of performance and tenure rights granted to KMP under the 2016 LTI and 2015 STI allocation during the year as well as details of shares and rights granted under prior year LTI and STI awards.

			Rights vested		
Name	Held at 1 July 2015 [1]	Granted during year	2014 STI	2014 tenure	Held at 30 June 2016 [2]
S McWilliam	892,925	294,118	(43,972)	(149,578)	993,493
I Parkes	258,395	126,050	(19,504)	(42,553)	322,388
R Hair	173,770	131,303	-	(41,118)	263,955
Total rights held	**1,325,090**	**551,471**	**(63,476)**	**(233,249)**	**1,579,836**

[1] Reflects prior year's grants which are subject to performance conditions at that time which remain unvested (i.e. performance rights for the 2014 and 2015 financial years, tenure rights for the 2015 financial year and STI for the 2014 and 2015 financial years).

[2] Reflects the grants subject to performance conditions at that time which remain unvested (i.e. performance rights for the 2014, 2015 and 2016 financial years, tenure rights for the 2014 and 2015 financial year and STI for the 2015 financial year).

3.6 Executive KMP remuneration during the year

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments [2]	Total		
	Cash salary	STI	Non-monetary benefits	Super-annuation	Leave [1]			Percentage performance related [3]	Percentage rights related
	($)	($)	($)	($)	($)	($)	($)	(%)	(%)
S McWilliam – CEO									
2016	**350,000**	**150,000**	**-**	**43,224**	**5,695**	**120,967**	**669,886**	**40.5%**	**18.1%**
2015	342,295	105,000	-	41,353	12,435	153,084	654,167	39.5%	23.4%
I Parkes – CFO									
2016	**240,000**	**70,000**	**-**	**27,074**	**3,905**	**33,792**	**374,771**	**27.7%**	**9.1%**
2015	237,121	45,000	-	28,635	364	48,876	359,996	26.1%	13.6%
R Hair – General Manager Sales									
2016	**250,000**	**60,000**	**-**	**28,025**	**4,068**	**24,993**	**367,086**	**23.2%**	**6.8%**
2015	250,000	45,000	-	23,750	188	29,261	348,199	21.3%	8.4%
Total									
2016	**840,000**	**280,000**	**-**	**98,323**	**13,668**	**179,752**	**1,411,743**		
2015	829,416	195,000	-	93,738	12,987	231,221	1,362,362		

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

[2] Share-based payments: Refer to section 3.3 for detailed disclosures under the STI and sections 3.4 for the LTI.
The amounts include:

STI
The portion of the 2015 STI that was deferred into shares is recognised over the performance and forfeiture periods, which together are referred to as the 'service period'. The STI for the 2015 financial year that was deferred into shares continues to be expensed in the 2016 financial year based on probability of vesting, as these shares are subject to performance and forfeiture conditions.

LTI
LTI granted for the 2016 financial year as detailed in section 3.4.The LTI for the 2014 and 2015 financial years continue to be expensed in the 2016 financial year based on probability of vesting as these shares are subject to performance and forfeiture conditions, together referred to as the 'service period'.

[3] The percentage performance related for the 2016 financial year 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.

3.7 At-risk component

The key details of the at-risk component of executive KMP remuneration is summarised below.

a) STI deferred share rights – for the 2016 financial year.

Description	• Award of STI deferred share rights.
Performance conditions	• Financial performance conditions specifically NPAT and other strategic targets set by the Board (refer to section 3.3); and • Continuing employment
Performance period	• Financial year
Vesting	• Incentive awards are determined after the preparation of the financial statements each year (in respect of the financial measures) and after a review of performance against non-financial measures by the CEO (and in the case of the CEO, by the Board) at the end of the financial year. • Financial measures include NPAT, and other specific business unit objectives as determined by the Board, are calculated based on the achievement of actual results against the targets set for these measures at the start of the financial year. The performance and development review process is used to capture and assess key objectives and outcomes in relation to non-financial measures (i.e. diversity, talent management and key objectives for the role). • The Board confirms final awards based on overall personal and Group performance. In accordance with the terms of the plan, the Board has discretion to make adjustments to the performance conditions.
Change of control	• Board discretion to determine treatment of awards.

3.7 At-risk component (continued)

b) LTI performance rights – for the 2016 financial year

Grant date	• 1 January 2016
Description	• Award of LTI performance rights.
Performance conditions	There are two performance hurdles: • CAGR of the TSR of Homeloans (*50% weighting*); and • Performance against ASX Small Ordinaries Index TSR (*50% weighting*).
Performance period/s	• Three years which is split into three tranches (see below).
Vesting	See below
Change of control	Board discretion to determine treatment of awards.

Vesting

Year	**Vesting**	**Proportion of share rights exercisable**
Performance criteria: CAGR of the TSR of Homeloans		
1st year	One third	Less than 10% = 0% 10% = 50% 10%-15% = Straight line vesting between 50-100% 15% or more = 100% If performance conditions are not satisfied any share rights that remain unvested will be tested again at 31 December 2017.
2nd year	One third	Performance conditions are as above and if not satisfied, any rights that remain unvested will be tested again at 31 December 2018.
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.
Performance criteria: Homeloans TSR compared to the ASX Small Ordinaries Index		
1st year	One third	TSR below ASX Small Ords Index TSR = 0% TSR equal to ASX Small Ords Index TSR = 50% TSR outperforms Index TSR by less than 25% = 2% each 1% above TSR outperforms Index TSR by 25%+ = 100% If performance conditions are not satisfied any share rights that remain unvested will be tested again at 31 December 2017.
2nd year	One third	Performance conditions are as above and if not satisfied, any rights that remain unvested will be tested again at 31 December 2018.
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.

Non-executive director remuneration

4. Objectives and outcomes

4.1 Overview of non-executive directors remuneration policy and arrangements

Policy objectives

- **To be market competitive** – aim to set fees at a level competitive with non-executive directors in comparative companies; and
- **To safeguard independence** – to not include any performance-related element, to preserve the independence of non-executive directors.

Aggregate fees approved by shareholders

The current maximum aggregate fee pool for non-executive directors of $250,000 per annum was approved by shareholders at the November 2005 Annual General Meeting. This came into effect on 1 January 2006.

Regular reviews of remuneration

The Board periodically reviews the level of fees paid to non-executive directors, including seeking external advice. There was no review or external advice sought during the year.

No fees are paid to members of either the Audit and Risk Management Committee fees or the Nomination and Remuneration Committee.

There was no increase to the main board fees during the year.

4.2 Non-executive director fees and other benefits

The fees shown in the table below took effect from 1 July 2015.

Fees/benefits	Description	2016 $	Included in shareholder approved cap
Board fees	Chairman – R Scott	$75,000	Yes
	Members – R Salmon	$50,000	
	M Starkey	$0	
Superannuation	No superannuation payments are made to the Homeloans Group Superannuation Plan or any another regulated superannuation fund.		Yes
Other benefits	There are no other benefits paid.		Yes

4.3 Non-executive director remuneration

The fees paid or payable to the non-executive directors during the year are set out below:

	Short-term benefits		
	Fees ($)	Other benefits ($)	Total ($)
Chairman			
R Scott			
2016	**75,000**	**-**	**75,000**
2015	66,615	-	66,615
Non-executive directors			
R Salmon			
2016	**50,000**	**-**	**50,000**
2015	50,000	-	50,000
M Starkey [1]			
2016	**-**	**-**	**-**
2015	-	-	-
Former Chairman			
T Holmes			
2016	**-**	**-**	**-**
2015	34,614	3,960	38,574
Total			
2016	**125,000**	**-**	**125,000**
2015	151,229	3,960	155,189

[1] Acting as a director in connection with discharging his duties as an executive of NAB and consequently does not take fees for his services.

Other remuneration information

5. Remuneration governance

5.1 Responsibility for setting remuneration

Responsibility for setting remuneration policy and determining directors and KMP remuneration rests with the Board.

The Nomination and Remuneration Committee is delegated responsibility to review and make recommendations to the Board. Management and remuneration consultants, when used, provide information to assist the Board and the Nomination and Remuneration Committee, but do not substitute for the Board and committee processes.

Detail of the composition of the Nomination and Remuneration Committee is set out on page 22 of this financial report. Further information regarding the objectives and role of the Nomination and Remuneration Committee is contained in its Charter, which is available on the Corporate Governance section of the company's website at www.homeloans.com.au

5.2 Use of remuneration advisors during the year

There were no remuneration advisors engaged by the Nomination and Remuneration Committee during the year.

5.3 KMP share ownership

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

Name	Balance at 1 July 2015	Vested/ exercised rights	Net change	Balance at 30 June 2016
Non-executive directors				
R Scott	2,156,116	-	-	2,156,116
R Salmon	10,977,449	-	-	10,977,449
M Starkey	-	-	-	-
Total non-executive directors	**13,133,565**	**-**	**-**	**13,133,565**
Executives				
S McWilliam	73,338	193,550	-	266,888
I Parkes	13,298	62,057	-	75,355
R Hair	10,000	41,118	-	51,118
Total executives	**96,636**	**296,725**	**-**	**393,361**
Total KMP	**13,230,201**	**296,725**	**-**	**13,526,926**

5.4 Share trading restrictions

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

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

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

6. Further information on remuneration

6.1 Service agreements

The remuneration and other terms of employment for the three KMP are covered in formal employment contracts. All service agreements are for unlimited duration.

All KMP are entitled to receive pay in lieu of any accrued but untaken annual and long service leave on cessation of employment.

Name	Notice period/termination payment
S McWilliam	Six months’ notice (or payment in lieu) May be terminated immediately for serious misconduct
I Parkes	Six months’ notice (or payment in lieu)
R Hair	Three months’ notice (or payment in lieu)
	Both may be terminated immediately for serious misconduct

6.2 Other transactions and balances with key management personnel

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

There were no loans made during the year or remaining unsettled at 30 June 2016 between Homeloans and its KMP and their related parties.

6.3. Independent audit of remuneration report

The remuneration report has been audited by Ernst & Young. Please see page 90 of this financial report for Ernst & Young’s report on the remuneration report.

This directors’ report, including the remuneration report, is signed in accordance with a resolution of the directors of Homeloans Limited.

R N Scott
Chairman

Perth
22 September 2016

End of remuneration report

Ernst & Young
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Perth WA 6000 Australia
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Auditor's Independence Declaration to the Directors of Homeloans Limited

As lead auditor for the audit of Homeloans Limited for the year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Homeloans Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

V L Hoang
Partner
22 September 2016

Statement of comprehensive income

for the year ended 30 June 2016

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Interest income	1	**16,510**	18,274	**3,980**	4,623
Interest expense	2	**(9,263)**	(10,425)	**(1,288)**	(1,428)
Net interest income		**7,247**	7,849	**2,692**	3,195
Fees and commission income	1	**40,082**	37,864	**31,230**	27,519
Fees and commission expense	2	**(23,701)**	(22,528)	**(15,283)**	(13,745)
Other operating income	1	**346**	244	**2,855**	4,675
Employee benefits expense	2	**(10,472)**	(9,994)	**(10,472)**	(9,758)
General administrative and other expenses	2	**(6,097)**	(5,965)	**(5,746)**	(5,768)
Impairment reversal	2	**4**	406	**-**	-
Gain on re-measurement of loans and advances recognised at amortised cost	1	**95**	143	**-**	-
Profit before income tax		**7,504**	8,019	**5,276**	6,118
Income tax expense	3	**(2,251)**	(2,411)	**(1,579)**	(1,310)
Net profit after income tax		**5,253**	5,608	**3,697**	4,808
Total comprehensive income for the year attributable to members of Homeloans Limited		**5,253**	5,608	**3,697**	4,808
Earnings per share for profit attributable to the ordinary equity holders of the parent					
Basic earnings per share (cents per share)	17	**4.96**	5.33		
Diluted earnings per share (cents per share)	17	**4.94**	5.28		

The Statement of comprehensive income is to be read in conjunction with the accompanying notes.

Statement of financial position
as at 30 June 2016

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Assets					
Cash and cash equivalents	4	**12,604**	12,316	**3,129**	3,630
Receivables	5	**4,409**	5,227	**10,614**	13,611
Loans and advances to customers	6	**181,142**	200,438	**-**	-
Other financial assets	7	**68,894**	63,829	**47,044**	41,584
Plant and equipment	8	**607**	635	**607**	635
Investment in controlled entities	20	**-**	-	**10,706**	10,706
Intangible assets	9	**13,242**	13,242	**655**	655
Total assets		**280,898**	295,687	**72,755**	70,821
Liabilities					
Trade and other payables	10	**6,081**	4,803	**17,063**	15,592
Interest-bearing liabilities	11	**188,857**	209,151	**1,955**	3,540
Other financial liabilities	12	**30,158**	27,782	**13,583**	12,223
Derivative financial liability	19	**42**	32	**-**	-
Lease incentives		**100**	100	**100**	100
Deferred tax liabilities	3	**10,144**	9,693	**7,175**	6,321
Provisions	13	**797**	735	**797**	735
Total liabilities		**236,179**	252,296	**40,673**	38,511
Net assets		**44,719**	43,391	**32,082**	32,310
Equity					
Issued capital	16	**39,391**	39,184	**39,391**	39,184
Reserves	16	**1,333**	1,232	**1,333**	1,232
Retained earnings/(accumulated losses)	16	**3,995**	2,975	**(8,642)**	(8,106)
Total equity		**44,719**	43,391	**32,082**	32,310

The Statement of financial position is to be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2016

	Attributable to equity holders of the parent			
	Issued capital	Retained earnings	Reserves	Total equity
CONSOLIDATED	$'000	$'000	$'000	$'000
Balance at 1 July 2014	39,029	1,568	940	41,537
Net profit after income tax	-	5,608	-	5,608
Total comprehensive income	-	5,608	-	5,608
Shares issued under performance rights	74	-	(74)	-
Dividend reinvestment plan	81	-	-	81
Share-based payments	-	-	366	366
Equity dividends	-	(4,201)	-	(4,201)
Balance at 30 June 2015	39,184	2,975	1,232	43,391
Net profit after income tax	**-**	**5,253**	**-**	**5,253**
Total comprehensive income	**-**	**5,253**	**-**	**5,253**
Shares issued under performance rights	**207**	**-**	**(207)**	**-**
Share-based payments	**-**	**-**	**308**	**308**
Equity dividends	**-**	**(4,233)**	**-**	**(4,233)**
Balance at 30 June 2016	**39,391**	**3,995**	**1,333**	**44,719**

Statement of changes in equity (continued)

for the year ended 30 June 2016

	Attributable to equity holders of the parent			
	Issued capital	Retained earnings/ (Accumulated losses)	Reserves	Total equity
PARENT	$'000	$'000	$'000	$'000
Balance at 1 July 2014	39,029	(8,713)	940	31,256
Net profit after income tax	-	4,808	-	4,808
Total comprehensive income	-	4,808	-	4,808
Shares issued under performance rights	74	-	(74)	-
Dividend reinvestment plan	81	-	-	81
Share-based payments	-	-	366	366
Equity dividends	-	(4,201)	-	(4,201)
Balance at 30 June 2015	39,184	(8,106)	1,232	32,310
Net profit after income tax	**-**	**3,697**	**-**	**3,697**
Total comprehensive income	**-**	**3,697**	**-**	**3,697**
Shares issued under performance rights	**207**	**-**	**(207)**	**-**
Share-based payments	**-**	**-**	**308**	**308**
Equity dividends	**-**	**(4,233)**	**-**	**(4,233)**
Balance at 30 June 2016	**39,391**	**(8,642)**	**1,333**	**32,082**

The Statement of changes in equity is to be read in conjunction with the accompanying notes.

Cash flow statement

for the year ended 30 June 2016

	Note	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000	PARENT 2016 $'000	PARENT 2015 $'000
Cash flows from operating activities					
Interest received		**16,729**	18,573	**4,172**	4,861
Interest paid		**(9,507)**	(11,829)	**(1,373)**	(1,432)
Receipts from loan fees and other income		**35,244**	33,077	**28,343**	27,945
Payment of employee benefits and other expenses		**(36,302)**	(34,420)	**(26,204)**	(26,377)
(Repayments of)/proceeds from warehouse facility [1]		**(12,971)**	5,488	**-**	-
Repayments to bondholders [1]		**(5,578)**	(8,140)	**-**	-
Receipts of net loans from borrowers [1]		**19,347**	3,965	**-**	-
Net payment of income taxes		**(1,092)**	(2,812)	**(16)**	(2,812)
Net cash flows from operating activities	4	**5,870**	3,902	**4,922**	2,185
Cash flows from/(used in) investing activities					
Purchases of plant and equipment		**(291)**	(172)	**(291)**	(172)
Proceeds/(payment) from/(in) investment in convertible note		**596**	(613)	**596**	(613)
Acquisition of Barnes Home Loans		**-**	(2,371)	**-**	(2,371)
Net cash flows from/(used in) investing activities		**305**	(3,156)	**305**	(3,156)
Cash flows used in financing activities					
Proceeds from borrowings		**-**	2,662	**-**	2,662
Repayment of borrowings		**(1,660)**	(834)	**(1,501)**	(807)
Payment of dividends		**(4,227)**	(4,056)	**(4,227)**	(4,056)
Net cash flows used in financing activities		**(5,887)**	(2,228)	**(5,728)**	(2,201)
Net increase/(decrease) in cash and cash equivalents		**288**	(1,482)	**(501)**	(3,172)
Balance at 1 July		**12,316**	13,798	**3,630**	6,802
Balance at 30 June	4	**12,604**	12,316	**3,129**	3,630

[1] The cash flows of the group include those arising within the RMT SPVs and have a significant effect on the interpretation of the consolidated entity's cash flows. These cash flows are not available for the use of shareholders. The RMT SPV's generated positive operating cash flows of $434,000 (2015: positive operating cash flows of $1,613,000) during the financial year.

Notes to the financial statements: About this report
for the year ended 30 June 2016

Homeloans Limited (referred to as the 'Company' or 'Homeloans') is a for-profit limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The nature of the operations and principal activities of Homeloans and its subsidiaries (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 2016 was authorised for issue in accordance with a resolution of the Directors on 22 September 2016. 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 certain financial assets which have been measured at fair value;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) unless otherwise stated, in accordance with the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Director's 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 after 1 July 2015. Refer to note 27 for further details; and
- does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective. Refer to note 27 for further details.

Parent entity financial statements

The Company has adopted Class Order 10/654, issued by ASIC permitting entities to continue to include parent entity financial statements in their financial reports. Entities taking advantage of the relief are not required to present the summary parent entity information otherwise required by regulation 2M.3.01 of the *Corporations Regulations 2001*.

Key judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events.

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

Page	Note	Name
37	**Note 1**	Income
49	**Note 7**	Other financial assets
52	**Note 9**	Goodwill impairment
58	**Note 12**	Other financial liabilities
71	**Note 20**	Special purpose entities

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 20.

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 returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

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.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

Business combinations

Business combinations (post 1 July 2009)

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate AAS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

Acquisition-related costs are expensed as incurred.

Business combinations (pre 1 July 2009)

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

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.

Notes to the financial statements: Segment information
for the year ended 30 June 2016

The Group's operating segments are organised and managed separately according to the nature of the products and services provided.

The Board and executive management team (the chief operating decision-makers) monitor the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment.

The types of products and services from which each reportable segment derives its revenues are disclosed below. Segment performance is evaluated based on operating profit or loss (segment result), which in certain respects, is presented differently from operating profit or loss in the consolidated financial statements.

Corporate charges are allocated to operating segments on a proportionate basis linked to origination activity and loan portfolio balances.

Income tax is not allocated to operating segments, as this type of activity is managed on a group basis.

Segment revenue, expenses and results include transfers between business segments. Those transfers are eliminated on consolidation.

There are two operating segments and their respective types of products and services are as follows:

(1) Origination and management

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

(2) Securitisation of mortgages

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

Geographical information

The Group operates solely in Australia.

Revenue is allocated based on the location of the Groups operation in which it is derived, which is Australia.

Non-current assets are allocated based on the Group's domicile which is Australia.

Segment information (continued)

	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		CONSOLIDATED	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Revenue from external customers	**46,166**	44,372	**10,772**	12,010	**56,938**	56,382
Inter-segment revenue	**2,525**	2,410	**-**	-	**2,525**	2,410
Total segment revenue	**48,692**	46,782	**10,772**	12,010	**59,463**	58,792
Inter-segment elimination					**(2,525)**	(2,410)
Total consolidated revenue					**56,938**	56,382
Segment results before tax, depreciation, amortisation, finance costs and impairment	**6,131**	6,231	**1,634**	1,694	**7,765**	7,925
Depreciation and amortisation	**(321)**	(380)	**-**	-	**(321)**	(380)
Impairment gain	**-**	-	**4**	406	**4**	406
Gain on re-measurement of loans and advances recognised at amortised cost	**-**	-	**95**	143	**95**	143
Finance costs	**(39)**	(75)	**-**	-	**(39)**	(75)
Segment results before income tax	**5,771**	5,776	**1,733**	2,243	**7,504**	8,019
Income tax expense					**(2,251)**	(2,411)
Net profit after income tax					**5,253**	5,608

Segment information (continued)

	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		CONSOLIDATED	
	2016	2015	**2016**	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Other segment information						
Segment assets	**95,586**	85,477	**85,312**	210,210	**280,898**	295,687
Total assets	**95,586**	85,477	**185,312**	210,210	**280,898**	295,687
Segment liabilities	**(41,654)**	(36,885)	**(184,070)**	(206,117)	**(225,724)**	(243,002)
Tax liabilities					**(10,455)**	(9,294)
Total liabilities	**(41,654)**	(36,885)	**(184,070)**	(206,117)	**(236,179)**	(252,296)
Net assets	**53,932**	48,592	**1,242**	4,093	**44,719**	43,391
Capital expenditure	**291**	172	**-**	-	**291**	172
Interest expense	**2,743**	2,915	**6,520**	7,510	**9,263**	10,425

1. Income

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Revenue				
(a) Fees and commission income				
Mortgage origination income	**14,624**	14,215	**11,185**	10,353
Loan management income	**25,458**	23,649	**20,045**	17,166
Total fees and commission income	**40,082**	37,864	**31,230**	27,519
(b) Interest income				
Interest received – other persons/corporations	**10,590**	11,820	**112**	110
Discount unwind on net present value of trail income	**5,920**	6,454	**3,868**	4,513
Total interest income	**16,510**	18,274	**3,980**	4,623
(c) Other				
Rental income	**19**	18	**18**	18
Management fees – wholly owned controlled entities	**-**	-	**2,525**	2,738
Dividend received from subsidiary	**-**	-	**-**	1,700
Other	**327**	226	**312**	219
Total other income	**346**	244	**2,855**	4,675
Total revenue	**56,938**	56,382	**38,065**	36,817
(d) Other income				
Gain on remeasurement of loans and advances recognised at amortised cost	**95**	143	**-**	-

1. Income *(continued)*

Recognition and measurement

Revenue

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

(a) Fees and commission income

Mortgage origination and loan management business – Managed and non- managed loans

Application fee revenue

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

Origination commissions

This is recognised as revenue once the origination of the loan has been completed.

Trailing commissions

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

Upon settling loans, the fair value of the future trailing commission receivable is recognised as revenue for the services provided. This represents the expected future trailing commission's receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees, discounted to their net present value (NPV).

The trailing commission revenue is recognised upon settlement as the services to earn that revenue are principally performed upfront by Homeloans. In addition, the fair value of the trailing commission expense is also recognised.

This represents the expected future trailing commissions payable to brokers and commissioned staff discounted to their NPV.

Transactional fees

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

(b) Interest income

Securitisation of mortgages

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

(c) Other

Rental income

Rent income consists of sub-lease rent from the Queensland office. Rent received under operating leases and initial direct costs are recognised on a straight line basis over the term of the lease.

Dividend received from subsidiary

Revenue from dividends is recognised when the Group's right to receive the income is established.

(d) Other income

Gain / loss on remeasurement of receivables and payables recognised at amortised cost

The carrying amounts of receivables and payables, including trailing commission receivable and payable and loans within the RMT SPV's, 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

2. Expenses

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
(a) Fees and commission expense				
Mortgage origination expense	**12,346**	11,564	**8,891**	7,887
Loan management expense	**11,355**	10,964	**6,392**	5,858
Total fees and commission expense	**23,701**	22,528	**15,283**	13,745
(b) Interest expense				
Payable to warehouse facility provider	**5,996**	6,724	**-**	-
Discount unwind on net present value of trail expense	**2,561**	2,805	**1,106**	1,318
Payable to bondholders	**524**	786	**-**	-
Other loans	**182**	110	**182**	110
Total interest expense	**9,263**	10,425	**1,288**	1,428
(c) Employee benefits expense				
Remuneration, bonuses and on-costs	**9,396**	8,880	**9,396**	8,644
Superannuation expense	**768**	748	**768**	748
Share-based payments expense	**308**	366	**308**	366
Total employee benefits expense	**10,472**	9,994	**10,472**	9,758
(d) General administrative and other expenses				
Occupancy-related expenses	**1,351**	1,330	**1,351**	1,279
Depreciation	**321**	380	**321**	380
Marketing, consultancy and IT	**2,301**	2,030	**2,249**	2,011
Bank fees	**89**	69	**82**	47
Other	**2,035**	2,156	**1,743**	2,051
Total general administrative and other expenses	**6,097**	5,965	**5,746**	5,768
(e) Impairment reversal				
Loans and advances	**(4)**	(406)	**-**	-
Total impairment reversal	**(4)**	(406)	**-**	-
Total expenses	**49,529**	48,506	**32,789**	30,699
(f) Gain on derivative financial liability				
Held for trading	**10**	7	**-**	-
Total gain on derivative financial liability	**10**	7	**-**	-

2. Expenses *(continued)*

Recognition and measurement

(a) Fees and commission expense

Trailing commission expense

Refer to note 1(a) for details on the trailing commission expense.

(b) Interest expense

Borrowing costs

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

Payable to warehouse facility provider

The warehouse facility incurs interest at the bank bill rate plus a margin. The facility is secured by the assets of the warehouse trust. Interest is recognised at an effective rate 3.18% (2015: 3.69 %).

Discount unwind on net present value of trail expense

Refer to note 1(a) trailing commissions for more details.

Payable to bondholders

Interest is payable to bondholders on Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, with an expected maturity of at least 5 years. Interest is recognised at an effective rate of 2.21% (2015: 2.66 %).

Further details of the Group's interest- bearing liabilities are set out in note 11.

(c) Employee benefits expense

Remuneration, bonuses and on- costs

Employee benefits expenses are recognised as incurred in respect of salaries and wages, non-monetary benefits, annual leave, long service leave sick leave, bonuses and payroll tax.

The Group's accounting policy for long service leave is set out in note 13.

Superannuation expense

The majority of employees are party to a defined contribution scheme and receive fixed contributions from the Group and the Group's legal or constructive obligation is limited to these contributions. Contributions to defined contribution funds are recognised as an expense as they become payable.

Share-based payments expense

The policy relating to share-based payments is set out in note 26.

(d) General administrative and other expenses

Depreciation and amortisation

Refer to note 8 for details on depreciation.

Occupancy-related expenses

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and released to the income statement on a straight line basis over the lease term.

Fixed rate increases to lease payments, excluding contingent or index based rental increases, are recognised on a straight line basis over the lease term.

(e) Impairment reversal

Loans and advances

An allowance for impairment is maintained against the mortgage loan receivables within the RMT SPV's. This is measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries.

In the current financial year, an impairment reversal of $4,000 (2015: $406,000 gain) has been recognised. Refer to note 6 for further disclosure on allowance for impairment.

(f) Gain on derivative financial liability

Gain on derivative financial liability classified as held for trading is included under 'Interest payable to bondholders' under note 11 but disclosed separately under note 19.

3. Tax expense

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
The major components of income tax expense are:				
Statement of comprehensive income				
Current year income tax expense				
• Current year	**1,741**	1,799	**685**	1,127
• Adjustment in respect of previous years	**59**	(123)	**39**	(123)
Deferred income tax expense				
• Origination and reversing temporary differences	**451**	735	**855**	306
Income tax expense reported in the Statement of comprehensive income	**2,251**	2,411	**1,579**	1,310
Tax reconciliation				
Profit before tax	**7,504**	8,019	**5,276**	6,118
Income tax at the statutory rate of 30%	**2,251**	2,406	**1,583**	1,835
Adjustments relating to prior years	**59**	(123)	**39**	(123)
Non-deductible items				
• Entertainment expenses	**11**	11	**11**	11
• Share-based payments expense	**92**	104	**92**	104
Fully franked dividend received from subsidiary	**-**	-	**-**	(510)
Other items	**(162)**	13	**(146)**	(7)
Income tax on profit before tax	**2,251**	2,411	**1,579**	1,310

3. Tax expense *(continued)*

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Deferred income tax in the Statement of financial position relates to the following:				
Deferred tax liabilities				
Trailing commissions receivable	**20,667**	19,149	**14,112**	12,475
Accrued income and other	**120**	118	**114**	113
Effective interest adjustment on loans and advances	**95**	98	**-**	-
Total deferred tax liabilities	**20,883**	19,365	**14,226**	12,588
Deferred tax assets				
Trailing commissions payable	**9,047**	8,335	**4,075**	3,667
Accrued and other payables	**1,048**	657	**956**	559
Provisions	**397**	386	**1,909**	1,898
Impairment losses – loans and advances to customers	**109**	122	**-**	-
Effective interest adjustment on loans and advances	**15**	19	**-**	-
Lease incentives	**30**	-	**30**	30
Derivatives	**13**	10	**-**	-
Capital items	**80**	113	**80**	113
Total deferred tax assets	**10,739**	9,672	**7,051**	6,267
Net deferred tax liabilities	**10,144**	9,693	**7,175**	6,321
Deferred income tax in the Statement of comprehensive income relates to the following:				
Trailing commissions	**806**	858	**1,229**	747
Provisions	**(11)**	(61)	**(11)**	(60)
Accruals and other	**(389)**	(313)	**(396)**	(330)
Impairment losses – loans and advances to customers	**13**	277	**-**	-
Capital items	**33**	(51)	**33**	(51)
Other individually insignificant balances	**(1)**	25	**-**	-
Deferred tax expense	**451**	735	**855**	306

3. Tax expense *(continued)*

Recognition and measurement

Current taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities at the tax rates and tax laws enacted or substantively enacted by the balance sheet date.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise them.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

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

Deferred income tax is provided on temporary differences at balance sheet date between accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

- Where they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- Where taxable temporary differences relate to investments in subsidiaries, associates and interests in joint ventures:

  1. Deferred tax liabilities are not recognised if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

  2. Deferred tax assets are not recognised if it is not probable that the temporary differences will reverse in the foreseeable future and taxable profit will not be available to utilise the temporary differences.

Deferred tax liabilities are also not recognised on recognition of goodwill.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Offsetting deferred tax balances

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

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

Tax effect accounting by members of the tax consolidated group

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

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

3. Tax expense *(continued)*

Nature of the tax funding agreement

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

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

Tax consolidation contributions/distribution

Homeloans has recognised the following amounts as tax consolidation adjustments:

	CONSOLIDATED	
	2016 **$'000**	2015 $'000
Increase to tax payable to Homeloans Limited from subsidiaries	**1,056**	1,097
Total increase to intercompany assets of Homeloans Limited	**1,056**	1,097

4. Cash and cash equivalents

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Cash at bank and on hand	**3,678**	3,824	**3,129**	3,630
RMT cash collections account [1]	**5,977**	5,335	**-**	-
Restricted cash [2]	**2,949**	3,157	**-**	-
Total cash and cash equivalents	**12,604**	12,316	**3,129**	3,630
Reconciliation of net profit after tax to the net cash flows from operating activities				
Net profit after tax	**5,253**	5,608	**3,697**	4,808
Non-cash items:				
Depreciation and amortisation	**321**	380	**321**	380
Impairment reversal – loans and advances	**(4)**	(406)	**-**	-
Share-based payments expense	**308**	292	**308**	292
Net gain on disposal of non-current assets	**5**	10	**5**	-
(Increase)/decrease in assets				
Receivables	**(4,848)**	(5,135)	**(3,063)**	(4,730)
Impairment allowance account	**(44)**	(921)	**-**	-
Increase/(decrease) in liabilities				
Trade and other payables	**2,862**	2,744	**2,028**	2,178
Current tax liability	**709**	(1,136)	**709**	(1,146)
Due from borrowers	**19,334**	4,294	**-**	-
Due to bondholders	**(5,578)**	(8,140)	**-**	-
Due to warehouse facility	**(12,971)**	5,487	**-**	-
Derivative financial liability	**10**	(7)	**-**	-
Deferred tax liabilities	**450**	735	**854**	306
Provisions	**63**	97	**63**	97
Net cash flows from operating activities	**5,870**	3,902	**4,922**	2,185

[1] RMT cash collections account includes monies held in the RMT SPV's on behalf of investors in those trusts. The funds are not available to Homeloans Limited.
[2] Cash held in trust as collateral for the borrowing facilities with Westpac Institutional Bank.

Recognition and measurement

Cash and short-terms deposits in the Statement of financial position comprise:

- Cash at bank and on hand; and
- Short-term deposits with an original maturity of three months or less.

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. Receivables

	CONSOLIDATED		PARENT	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Current				
Fees receivable	**2,846**	2,774	**1,972**	1,783
Prepayments	**780**	773	**557**	555
Accrued interest	**359**	407	**-**	-
Last days collection receivable	**386**	352	**-**	-
Other	**38**	308	**8**	99
Total current	**4,409**	4,614	**2,537**	2,437
Non-current				
Related parties	**-**	-	**8,077**	10,561
Loans to other corporates	**-**	613	**-**	613
Total non-current	**-**	613	**8,077**	11,174
Total receivables	**4,409**	5,227	**10,614**	13,611

Recognition and measurement

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

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

Fees receivable

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

Accrued interest

Interest income due from loans and advances operated by the RMT's is accrued using the effective interest method.

Last day's collection receivable

This represents amounts received within the RMT SPV's on the last day of the reporting period and not cleared in the bank until the first day of the next financial period.

Related parties

Details of the sales to related parties receivables are set out in note 24. No impairment was recognised in the current or prior financial year. The balance is considered fully collectible.

Loans to other corporates

This relates to the convertible note investment in a private company in 2015. The investment was not rated by Standard & Poor's (S&P) or any other credit rating agency. The note was repaid in February 2016.

Other receivables

All other receivables amounts generally arise from transactions outside the usual operating activities of the Group. They do not contain impaired assets and are not past due. Unless otherwise stated above, all other receivables are expected to be settled within 30-60 days.

6. Loans and advances to customers

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Gross loans and advances to customers	**181,507**	200,847	**-**	-
Less: allowance for impairment	**(365)**	(409)	**-**	-
Total loans and advances to customers	**181,142**	200,438	**-**	-
Expected maturity analysis				
Current				
• Less than one year	**51,840**	57,446	**-**	-
Non-current			**-**	-
• One to two years	**37,026**	41,007	**-**	-
• Two to three years	**26,449**	29,275	**-**	-
• Three to four years	**18,895**	20,901	**-**	-
• Four to five years	**13,500**	14,924	**-**	-
• Greater than five years	**33,797**	37,294	**-**	-
	181,507	200,847	**-**	-
Allowance account for impairment				
Balance at 1 July	**409**	1,330	**-**	-
Reduction in impairment charges	**(4)**	(406)	**-**	-
Written off	**(40)**	(515)	**-**	-
Balance at 30 June	**365**	409	**-**	-
Collective allowance	**365**	409	**-**	-
Specific allowance	**-**	-	**-**	-
Total impairment allowances	**365**	409	**-**	-
Loans past due but not impaired			**-**	-
• One to three months	**334**	895	**-**	-
• Three to six months	**1,545**	894	**-**	-
• Greater than six months	**122**	1,027	**-**	-
Total loans past due but not impaired	**2,001**	2,816	**-**	-

6. Loans and advances to customers *(continued)*

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

Allowance for impairment

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

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

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

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

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

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

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

All RMT loans are covered by Lenders Mortgage Insurance (LMI).

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

Loans past due but not impaired

Payment terms of these loans have not been re-negotiated, however credit ceased until payment is made. The Company has been in direct contact with relevant borrowers.

All RMT loans are secured by a first ranking mortgage over the residential property and are covered 100% by LMI.

Expected recoverable amounts are adjusted to reflect lower than 100% LMI recovery due to operational risks and are also reduced by the amount of higher rate (penalty) interest and fees related to loans in arrears which are not covered by LMI.

Loans with payments outstanding less than one month are more likely to be of a one off nature and are generally rectified by the borrower within a short period of time – i.e. within the same month. Loans in this category are less likely to be representative of loans with underlying repayment problems.

Loans past due and impaired

The impairment loss, which is determined based on an individual assessment of impaired loans, represents the carrying amount of the loans net of the value of future cash flows, adjusted for insurance recoveries (or expected recoverable amount).

The assessment of expected future cash flows includes such considerations as the specific circumstances of the borrower, the realisable value of security and expected insurance recoveries.

At 30 June 2016, there were no loans past due and impaired.

Collateral repossessed

As at 30 June 2016, the Group had two repossessed residential properties in possession being the security for RMT loans. The Group intends to sell these properties with the proceeds to go towards clearing the outstanding balance of the underlying RMT loan. It is expected that the outstanding balance will be recovered in full.

7. Other financial assets

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Future trailing commissions receivable					
• Current		**21,075**	20,067	**14,971**	13,593
• Non-current		**47,819**	43,762	**32,073**	27,991
Total other financial assets	18d	**68,894**	63,829	**47,044**	41,584

Recognition and measurement

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the Group is entitled. The Group also makes trailing commission payments to introducers based on the loan book balance outstanding (refer to note 12).

Initial recognition

Fair value of future trailing commission receivable and the corresponding payable is recognised on the origination of managed and non-managed mortgage loans at inception. This represents the NPV of the expected future trailing income receivable and payable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

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

Subsequent recognition

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

The carrying amounts of the trailing 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 trailing commission receivable and payable occurs at each reporting date.

Key estimates and assumptions

The key 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 an annual assessment made in conjunction with external actuaries and determined as follows:

	30 June 2016	30 June 2015
Weighted average loan life	**3.6 years**	3.3 years
Discount rate	**1**	1

[1] Discount rate

The discount rate applied to cash flow projections is 12% for all loans settled up to 30 June 2014 with a discount rate of 6% being used for loans settled from 1 July 2014 onwards and is based on average discount rates appropriately adjusted for the counter party credit risks.

Weighted average loan life

The methodology in calculating the weighted average loan life uses the commonly accepted S&P definition.

Prepayment rates

Some changes were made to the prepayment rates during the period. If these changes had not been made, the net profit after tax result would have been lower by $1,400,000 (2015: $2,185,000).

7. Other financial assets *(continued)*

Key judgement

The recognition of the future trailing commission receivable in the Statement of Financial Position is an area of judgment due to the different recognition criteria existing within the accounting standards.

This position will continue to be monitored in future accounting periods having regard to developments in the relevant accounting standards. In this respect, the Directors believe the accounting treatment adopted by the Group in recognising a financial asset is in accordance with the accounting standards and is consistent with the treatment adopted in the prior year and by similar industry participants.

The unrealised profit before tax resulting from the movement of the future trailing commission assets for the financial year ended 30 June 2016 was $5,065,000 (2015: $6,244,000).

8. Plant and equipment

	Note	CONSOLIDATED $'000	PARENT $'000
Year ended 30 June 2016			
Gross carrying amount - cost		**7,895**	**7,895**
Accumulated depreciation		**(7,288)**	**(7,288)**
Net carrying amount		**607**	**607**
Movement			
Balance at 1 July 2015		**635**	**635**
Additions		**293**	**293**
Depreciation	2	**(321)**	**(321)**
Balance at 30 June 2016		**607**	**607**
Year ended 30 June 2015			
Gross carrying amount - cost		7,602	7,602
Accumulated depreciation		(6,967)	(6,967)
Net carrying amount		635	635
Movement			
Balance at 1 July 2014		843	843
Additions		172	172
Depreciation	2	(380)	(380)
Balance at 30 June 2015		635	635

Recognition and measurement

The carrying value of property, plant and equipment is measured as the cost of the asset, less accumulated depreciation and impairment.

Depreciation and amortisation

Items of property, plant and equipment are depreciated on a straight line basis over their useful lives. The estimated useful life of plant and equipment is between 3 and 15 years.

Derecognition

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefits. Any gain or loss from derecognising the asset (the difference between the proceeds of disposal and the carrying amount of the asset) is included in the income statement in the period the item is derecognised.

Key estimate - impairment

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

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

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

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

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

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

9. Goodwill

	CONSOLIDATED $'000	PARENT $'000
Year ended 30 June 2016		
Net carrying amount	**13,242**	**655**
Movement		
Balance at 1 July 2015	**13,242**	**655**
Balance at 30 June 2016	**13,242**	**655**
Year ended 30 June 2015		
Net carrying amount	13,242	655
Movement		
Balance at 1 July 2014	13,220	655
Acquisition of controlled entities	22	-
Balance at 30 June 2015	13,242	655

Recognition and measurement

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Testing for impairment

The Group tests for impairment of goodwill at least annually and where there is an indication that the goodwill may be impaired (which is assessed at least each reporting date).

Recoverable amount is the greater of fair value less costs to sell and value in use (VIU).

Impairment calculations

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 cash generating unit (CGU).

Reversal of impairment

Impairments recognised for goodwill are not reversed.

Inputs to impairment calculations

(i) 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 developed annually with a five-year outlook on the understanding that actual outcomes may differ from the assumptions used.

(ii) Growth rates in settled loans

The assumed growth rate in settled loans reflects long term averages as well the business's projections of its own expected performance.

(iii) Discount rates

Discount rates are based on average discount rates for comparable businesses in the industry.

Increases in discount rates or changes in other key assumptions, such as operating conditions or financial performance, may cause the recoverable amounts to fall below carrying values.

(iv) Loan repayment rates

This is dependent on the types of loans and lenders and is based on actual experience.

(v) Inflation

This is based on long-term expectations on inflation and is reviewed annually for changes in the market environment.

Key estimate – impairment

For the purposes of impairment testing, goodwill has been allocated to the Origination and Management CGU. The goodwill associated with the Securitisation of Mortgages CGU was written down to nil in a prior period.

The recoverable amount of the Origination and Management CGU has been determined based on a VIU calculation.

Key assumptions

The key assumptions used for assessing the recoverable amount of the Origination and Management CGU are set out below:

	2016 $'000	2015 $'000
Discount rate (post-tax)	**8.5%**	8.5%
Terminal value	**16.5x**	16.5x
Growth rate - settled loans	**10%**	10%
Loan repayment rates	**16-25%**	14-25%
Inflation	**2%**	2%

9. Goodwill *(continued)*

- Securitisation of Mortgages CGU pays to the Origination and Management CGU a management fee representing services provided by the latter to the Securitisation of Mortgages CGU. The management fee represents a portion of the total costs incurred by the Origination and Management CGU in undertaking certain relevant tasks and is calculated on a proportionate basis linked to origination activity and loan portfolio balances.

- Expected decrease in the commission rates earned and paid as a result of market and competition driven influences.

Sensitivity to changes in assumptions

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is considerably greater than its written down carrying value, management believes that reasonably possible changes in the key assumptions, such as a reduction in the average growth rate from 10% to 5% would not cause the recoverable amount of the unit to be less than its carrying value.

Impairment charge

Based upon the impairment testing performed, there is no impairment charge for the year ended 30 June 2016 (2015: nil).

10. Trade and other payables

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Current				
Trade creditors	**769**	843	**636**	713
Payable to related parties				
• Controlled entities	**-**	-	**11,916**	11,916
Other creditors and accruals	**4,446**	3,020	**3,917**	2,380
Accrued commissions	**594**	583	**594**	583
Interest payable	**272**	357	**-**	-
Total trade and other payables	**6,081**	4,803	**17,063**	15,592

Recognition and measurement

Trade creditors and other payables

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.

Payable to related parties

This relates to transactions that were entered into with related parties during the year. Refer to note 24 for more detail.

Accrued commissions

Upfront and trail commission payable to brokers and third party originators.

Interest payable

(i) Warehouse facility provider

The interest payable to the warehouse facility provider is non-interest bearing and incurs interest at the bank bill rate plus a margin. Interest is recognised at an effective rate 3.18% (2015: 3.69 %) and is payable within 30 days.

(ii) Bondholders

Interest is payable to bondholders on RMBS with a legal final maturity of 32 years from issue, with an expected maturity of at least 5 years. Interest is recognised at an effective rate of 2.21% (2015: 2.66 %).

Further details of the Group's interest- bearing liabilities are set out in note 11.

11. Interest-bearing liabilities

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Maturity	**$'000**	$'000	**$'000**	$'000
Current					
Bank loans					
RMT warehouse facility	30 June 2017	**168,769**	181,740	**-**	-
WBC loan facility	8 April 2017	**1,500**	1,000	**1,500**	1,000
Other		**15**	57	**14**	52
Total current bank loans		**170,284**	182,797	**1,514**	1,052
Non-bank loans					
Bonds	2040	**5,003**	6,810	**-**	-
Loans from funders	2016-2020	**110**	250	**80**	189
Total current non-bank loans		**5,113**	7,060	**80**	189
Total current interest bearing liabilities		**175,397**	189,857	**1,594**	1,241
Non-current					
Bank loans					
WBC loan facility	8 April 2017	**-**	1,500	**-**	1,500
Total non-current bank loans		**-**	1,500	**-**	1,500
Non-bank loans					
Bonds	2040	**12,980**	16,750	**-**	-
Loans from funders	2016-2020	**440**	999	**321**	754
Other		**40**	45	**40**	45
Total non-current non-bank loans		**13,460**	17,794	**361**	799
Total non-current interest bearing liabilities		**13,460**	19,294	**361**	2,299
Total interest-bearing liabilities		**188,857**	209,151	**1,955**	3,540

11. Interest-bearing liabilities *(continued)*

Financing facilities available

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Total facilities				
RMT warehouse facility	**200,000**	200,000	**-**	-
WBC loan facility	**1,500**	3,000	**1,500**	3,000
Total facilities	**201,500**	203,000	**1,500**	3,000
Facilities used at reporting date				
RMT warehouse facility	**168,769**	181,740	**-**	-
WBC loan facility	**1,500**	2,500	**1,500**	2,500
Total facilities used at reporting date	**170,269**	184,240	**1,500**	2,500
Facilities unused at reporting date				
RMT warehouse facility	**31,231**	18,260	**-**	-
WBC loan facility	**-**	500	**-**	500
Total facilities unused at reporting date	**31,231**	18,760	**-**	500
Assets pledged as security				
First mortgage				
Loans and advances to customers	**181,142**	200,584	**-**	-
Floating charge				
Cash assets	**8,926**	8,492	**-**	-
Receivables	**746**	759	**-**	-
Total assets pledged as security	**190,814**	209,835	**-**	-

Recognition and measurement

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

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

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

Details of the fair value of the Group's interest- bearing liabilities are set out in note 18(d).

11. Interest-bearing liabilities *(continued)*

Terms and conditions relating to the financial instruments:

RMT warehouse facility

The warehouse facility incurs interest at the bank bill rate plus a margin.

The facility is secured by the assets of the warehouse trust. Interest is recognised at an effective rate of 3.18% (2015: 3.69%).

All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurers must be rated at least A- by S& P and A3 by Moody's.

The RMT warehouse facility is a rolling 12 month facility provided by Westpac Banking Corporation (WBC). WBC also acts as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT's.

FAI First Mortgage Pty Ltd (FAIFM) is the Trust Manager and Servicer to all RMTs.

FAIFM outsource these services to Bendigo and Adelaide Bank Limited who, in their capacity as Trust Manager and Servicer, are rated 'Strong' by S&P.

Perpetual Trustees Limited is the Trustee to all RMTs.

Extension to facility

The RMT warehouse has been extended for a further 12 months to 30 June 2017. The warehouse limit was maintained at $200 million in June 2016 (2015: $200 million).

Collateral

The RMT warehouse facility is supported by cash collateral reserves.

The amount required to be held in cash collateral reserves is determined as the greater of $1.5 million cash and or 1.75% of the total balance of loans in the warehouse.

Loan ratings

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

WBC loan facility

Homeloans entered into a loan agreement with WBC for $2,500,000 on 8 April 2015.

The outstanding balance of the loan facility must be no greater than $1,500,000 from 12 months of date of execution.

The remainder of the loan is due and payable within 24 months (8 April 2017) of entering into the agreement.

Interest is recognised at an effective rate of 5.70% (2015: 5.70%).

The loan facility of $1.5 million is secured by a general security interest over the Company.

Bonds - RMBS

The RMBS have a legal final maturity of 32 years from the date of issue. The expected maturity is at least 5 years.

This is a pass through facility where interest is recognised at an effective rate of 2.21% (2015: 2.66%).

12. Other financial liabilities

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Future trailing commissions payable				
• Current	**9,024**	8,762	**4,544**	4,239
• Non-current	**21,134**	19,020	**9,039**	7,984
Total other financial liabilities	**30,158**	27,782	**13,583**	12,223

Recognition and measurement

The Group makes trailing commission payments to introducers based on the loan book balance outstanding. Refer to note 7 for the Group's accounting policies, key estimates and judgements in relation to the initial recognition and subsequent measurement of future trailing commission's payable.

13. Provisions

Employee benefits – long service leave				
• Current	**540**	468	**540**	468
• Non-current	**257**	267	**257**	267
Total provisions	**797**	735	**797**	735

Recognition and measurement

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.

Key estimate – long service leave

Management judgement is required in determining the following key assumptions used in the calculation of long service leave at balance date:

(1) future increases in salaries and wages;

(2) future on-cost rates; and

(3) future probability of employee departures and period of service.

The total long service leave liability is $797,000 (2015: $735,000). Given the magnitude of the liability and the nature of the key assumptions, any reasonably possible change in one or a combination of the estimates is unlikely to have a material impact.

14. Capital management

The Group's capital management objectives

The primary objective of Homeloans is to provide a satisfactory return to its shareholders. The Group aims to achieve this objective by:

- improving returns on invested capital relative to that cost of capital; and
- ensuring a satisfactory return is made on any new capital invested.

Capital is defined as the combination of shareholders' equity, and reserves. The Board is responsible for monitoring and approving the capital management framework within which management operates. The purpose of the framework is to safeguard the Group's ability to continue as a going concern whilst optimising its equity structure.

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Issued capital	16	**39,391**	39,184	**39,391**	39,184
Reserves	16	**1,333**	1,232	**1,333**	1,232
Retained earnings/(accumulated losses)	16	**3,995**	2,975	**(8,642)**	(8,106)
Total equity		**44,719**	43,391	**32,082**	32,310

The Group manages its capital through various means, including:

- adjusting the amount of ordinary dividends paid to shareholders;
- maintaining a dividend investment plan; and
- raising or returning capital.

Australian Financial Services Licence (AFSL) compliance

The Company is also subject to an externally imposed capital requirement by ASIC. In accordance with Condition 4 of the Company's AFSL, it must

- be able to pay all its debts as and when they become due and payable;
- have total assets that exceed total liabilities;
- have no reason to suspect that its total assets would not exceed its total liabilities; and
- demonstrate, based on cash flow projections, that it will have access to sufficient financial resources to meet its short-term liabilities.

The Company complied with this requirement for the year ended 30 June 2016.

15. Dividends

	CONSOLIDATED	
	2016	2015
	$'000	$'000
Declared and paid during the period		
Fully franked final dividend for the year ended 30 June 2015 of 2.0 cents (2015: 2.0 cents) per share paid on 5 October 2015	**2,113**	2,102
Fully franked interim dividend for the half year ended 31 December 2015 of 2.0 cents (2015: 2.0 cents) per share paid on 31 March 2016	**2,120**	2,099
Total declared and paid during the period	**4,233**	4,201
Final dividend	**TBD** [1]	2,107
Franking credit balance		
Franking credits available for future years at 30% adjusted for the payment of income tax and dividends receivable or payable	**2,522**	2,390
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.	**TBD** [1]	(903)

[1] **Final 2016 dividend per share to be determined**

The Board of Homeloans Limited expects to declare a final dividend of 2.0 cents per share prior to the completion of the RESIMAC transaction, but in any event no later than 31 October 2016. This is contingent on the transaction completing and the outstanding share rights vest.

The payment of any dividend is subject to certain conditions as outlined in the Scheme Implementation Agreement announced on 20 July 2016.

The Company's Dividend Reinvestment Plan (DRP) will not apply to the final dividend.

16. Equity and reserves

	Note	CONSOLIDATED Thousands	CONSOLIDATED $'000	PARENT Thousands	PARENT $'000
Year end 30 June 2015					
Balance at 1 July 2014		105,114	39,029	105,114	39,029
Issue of ordinary shares on dividends reinvested		133	81	133	81
Issue of ordinary shares under performance rights		101	74	101	74
Balance at 30 June 2015	14	105,348	39,184	105,348	39,184
Year end 30 June 2016					
Balance at 1 July 2015		**105,348**	**39,184**	**105,348**	**39,184**
Issue of ordinary shares under performance rights		**379**	**207**	**379**	**207**
Balance at 30 June 2016	14	**105,727**	**39,391**	**105,727**	**39,391**

The nature of the Group's contributed equity

Ordinary shares are fully paid and have no par value. They carry one vote per shareholder present on a show of hands and one vote per share on a poll and the right to dividends. They bear no special terms or conditions affecting income of capital entitlements of the shareholders and are classified as equity.

There are no shares authorised for issue that have not been issued at reporting date.

	Note	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000	PARENT 2016 $'000	PARENT 2015 $'000
Retained earnings					
Balance at 1 July		**2,975**	1,568	**(8,106)**	(8,713)
Net profit after income tax		**5,253**	5,608	**3,697**	4,808
Equity dividends		**(4,233)**	(4,201)	**(4,233)**	(4,201)
Balance at 30 June	14	**3,995**	2,975	**(8,642)**	(8,106)
Share-based payments reserve					
Balance at 1 July		**1,232**	940	**1,232**	940
Share-based payments expense	2	**308**	366	**308**	366
Rights issued		**(207)**	292	**(207)**	74
Balance at 30 June	14	**1,333**	1,232	**1,333**	1,232

Nature and purpose of reserves

Share-based payments 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 26 for further details of these plans.

17. Earnings per share

	CONSOLIDATED	
	2016	2015
Profit attributable to ordinary equity holders of the parent ($'000)	**5,253**	5,608
WANOS [1] used in the calculation of basic EPS (shares, thousands)	**105,946**	105,296
WANOS [2] used in the calculation of diluted EPS (shares, thousands)	**106,439**	106,168
Basic EPS (cents per share)	**4.96**	5.33
Diluted EPS (cents per share)	**4.94**	5.28

[1] Weighted average number of shares (WANOS).

[2] The variance in the WANOS used in the calculation of the basic EPS and the diluted EPS is attributable to the share rights outstanding.

There were 2,520,383 rights outstanding at 30 June 2016 (2015: 2,001,444). 493,306 performance rights have not been included in the diluted earnings per share calculation as they are contingent on future events, which have not been met at 30 June 2016.

Performance related share rights have not been included in the diluted earnings per share calculation as they are contingent on future events, which have not been met at 30 June 2016.

During the period between the reporting date and the date of completion of the financial statements, 243,306 shares have been issued as a result of share rights being exercised relating to the 2016 STI. There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Calculation of earnings per share

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.

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.

18. Financial risk management

The Group holds financial instruments for the following purposes:

Financing: to raise finance for the Group's operations or, in the case of short-term deposits, to invest surplus funds. The principal types of instruments used include cash and short-term deposits.

Operational: the Group's activities generate financial instruments, including cash, receivables, payables, loans and advances to customers, interest bearing liabilities and fixed to floating interest rate swaps.

Risk management: to reduce risks arising from the financial instruments described above, including interest rate swaps.

It is, and has been throughout the year, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The Group's holding of these financial instruments exposes it to risk. The Board reviews and agrees the Group's policies for managing each of these risks, which are summarised below:

(a) **liquidity risk** (note 18(a))

(b) **market risk** (note 18(b)), including interest rate risk; and prepayment risk

(c) **credit risk** (note 18(c)).

The Group manages these risks in accordance with its risk management policies. The objective of the policies is to support the delivery of the Group's financial targets whilst protecting future financial security.

(a) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board reviews the cash flows' rolling forecast on a monthly basis to ensure that the level of its cash and cash equivalents is at an amount in excess of expected cash outflows over the succeeding months. Excess funds are generally invested in at call bank accounts with maturities of less than 90 days.

Within the special purpose entities the Group also maintains sufficient unused facilities to fund redraws and additional advances on existing loans. As stated in note 11, the Group has unused warehouse facilities at the reporting date.

(i) Securitisation warehouse facilities

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

Going forward, the group is reliant on the renewal/negotiation of the existing warehouse facility or the issuance of new RMBS in order to fund the existing mortgage loans in the RMT SPV.

The Group's warehouse facility has been extended for a further 12 months to 30 June 2017. The Group re-commenced writing new loans into the warehouse facility in the 2013 financial year and continued to write a proportion of new business volumes through the warehouse facility.

The warehouse facility is structured so that in the highly unlikely event it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

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

(ii) Term bonds payable

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

18. Financial risk management *(continued)*

(a) Liquidity risk (continued)

(iii) Maturity of financial liabilities

The following tables analyse the Group's financial liabilities, including net and gross settled financial instruments, into relevant maturity periods based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and hence will not necessarily reconcile with the amounts disclosed in the Statement of Financial Position.

CONSOLIDATED	<6 months or on demand $'000	6-12 months $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Year ended 30 June 2016							
Non-derivatives							
Trade and other payables	6,081	-	-	-	-	6,081	6,081
Interest bearing liabilities							
• Westpac loan facility	43	1,525	-	-	-	1,568	1,500
• RMT warehouse facility	27,620	145,400	-	-	-	173,020	168,769
• Bonds	2,928	2,445	6,365	3,117	4,968	19,823	17,983
• Loans from funders	71	70	261	234	-	636	550
• Lease payable	14	-	-	-	-	14	14
Trailing commissions payable	4,954	4,574	13,525	7,773	9,716	40,542	30,158
Total non-derivatives	**41,711**	**154,014**	**20,151**	**11,124**	**14,684**	**241,684**	**225,055**
Derivatives							
Derivative financial liability	42	-	-	-	-	42	42
Total derivatives	**42**	**-**	**-**	**-**	**-**	**42**	**42**
Total financial liabilities	**41,753**	**154,014**	**20,151**	**11,1244**	**14,684**	**241,726**	**225,097**
Year ended 30 June 2015							
Non-derivatives							
Trade and other payables	4,803	-	-	-	-	4,803	4,803
Interest bearing liabilities							
• Westpac loan facility	76	1,059	1,568	-	-	2,703	2,505
• RMT warehouse facility	30,109	156,670	-	-	-	186,779	181,740
• Bonds	3,995	3,334	8,665	4,222	4,990	25,206	23,560
• Loans from funders	162	158	591	529	-	1,440	1,249
• Lease payable	26	26	45	-	-	97	97
Trailing commissions payable	4,902	4,373	12,458	6,868	7,591	36,192	27,782
Total non-derivatives	44,073	165,620	23,327	11,619	12,581	257,220	241,736
Derivatives							
Derivative financial liability	34	-	-	-	-	34	32
Total derivatives	34	-	-	-	-	34	32
Total financial liabilities	44,107	165,620	23,327	11,619	12,581	257,254	241,768

18. Financial risk management *(continued)*

(a) Liquidity risk (continued)

(iii) Maturity of financial liabilities

PARENT	<6 months or on demand $'000	6-12 months $'000	1-3 years $'000	3-5 years $'000	>5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Year ended 30 June 2016							
Non-derivatives							
Trade and other payables	17,063	-	-	-	-	17,063	17,063
Interest bearing liabilities							
• Westpac loan facility	43	1,525	-	-	-	1,568	1,500
• Loans from funders	52	51	191	171	-	465	401
• Lease payable	14	-	-	-	-	14	14
Trailing commissions payable	2,557	2,236	6,189	3,294	3,446	17,722	13,583
Total non-derivatives	19,729	3,812	6,380	3,465	3,446	36,832	32,561
Total financial liabilities	19,729	3,812	6,380	3,465	3,446	36,832	32,561
Year ended 30 June 2015							
Non-derivatives							
Trade and other payables	15,592	-	-	-	-	15,592	15,592
Interest bearing liabilities							
• Westpac loan facility	71	1,059	1,568	-	-	2,698	2,500
• Loans from funders	123	120	448	401	-	1,092	943
• Lease payable	26	26	45	-	-	97	97
Trailing commissions payable	2,414	2,076	5,599	2,843	2,649	15,581	12,223
Total non-derivatives	18,226	3,281	7,660	3,244	2,649	35,060	31,355
Total financial liabilities	18,226	3,281	7,660	3,244	2,649	35,060	31,355

The obligation in respect of the NPV of future trailing commission only arises if and when the Group receives the corresponding trailing 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.

18. Financial risk management *(continued)*

(b) Market risk

(i) Interest rate risk

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

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

The Group's main interest rate risk arises from securitised assets, cash deposits and interest bearing liabilities. The vast majority of the Group's borrowings are issued at variable rates and expose the Group to interest rate risk. Mortgage loans that are written at variable rates and cash deposits also expose the Group to interest rate risk, however the risk is naturally hedged by the variable rate borrowings. All the Group's borrowings are issued at variable rates, however the vast majority pertains to the warehouse facility which is arranged as a 'pass through' facility, and therefore the exposure to the interest rate risk is mitigated by passing any rate increases onto the borrowers.

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

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

Profile

The table below summarises the profile of the Group's interest-bearing financial instruments at reporting date.

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Financial assets					
Floating rate					
Loans and advances to customers		**178,312**	197,584	**-**	-
Derivative financial instrument (notional value)	19	**2,830**	2,854	**-**	-
Cash assets	4	**12,604**	12,316	**3,129**	3,630
Total interest-bearing financial assets		**193,746**	212,754	**3,129**	3,630
Financial liabilities					
Floating rate					
Interest-bearing liabilities		**187,357**	206,651	**455**	1,040
Fixed rate					
WBC loan facility	11	**1,500**	2,500	**1,500**	2,500
Total interest-bearing financial liabilities	11	**188,857**	209,151	**1,955**	3,540

18. Financial risk management *(continued)*

(b) Market risk (continued)

Sensitivity analysis

A reasonably possible change in interest rates (e.g. +/-100bps) would not have a material impact on Group profit after tax and equity. The impact is determined by assessing the:

- effect that such a reasonably possible change in interest rates would have had on the interest income/(expense); and
- impact on financial instrument fair values.

(ii) Prepayment risk

NPV of future trailing commissions receivable and payable

Exposure to prepayment risk

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

Sensitivity analysis

A reasonably possible change in prepayment rates (e.g. +/-10%) would have a material impact on Group profit after tax and equity.

CONSOLIDATED	Impact on profit $'000	Impact on equity $'000
2016		
Prepayment rate + 10%	**(2,627)**	**(2,627)**
Prepayment rate – 10%	**3,066**	**3,066**
2015		
Prepayment rate + 10%	(2,443)	(2,443)
Prepayment rate – 10%	2,854	2,854
PARENT		
2016		
Prepayment rate + 10%	**(2,529)**	**(2,529)**
Prepayment rate – 10%	**2,955**	**2,955**
2015		
Prepayment rate + 10%	(1,998)	(1,998)
Prepayment rate – 10%	2,334	2,334

(iii) Other market risks

Operational risk

Under mortgage origination and management agreements with various lenders, there is a contingent clause which requires the company to repurchase settled loans if they do not meet certain lenders' criteria due to fault and negligence from Homeloans. Internal controls and processes have been implemented to mitigate this risk.

In addition the lenders have conducted various audits during the financial year with no material adverse findings. In the event the Group receives a potential claim in regards to the contingent clause described above the claim is assessed on its merits before a provision is made.

18. Financial risk management *(continued)*

(c) Credit risk

(i) Exposure to credit risk

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

Refer to note 6 for an maturity analysis of loans and advances to customers and detail on impairment allowances.

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.

The carrying amount of the Group financial assets represents the maximum credit exposure.

(ii) Concentration of credit risk

The Group minimises concentrations of credit risk in relation to cash, broking related accounts receivable, future trailing commission payable and derivative financial assets by undertaking transactions with a number of investment grade lending institutions.

Some agreements with lenders 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 Homeloans is in default. The Group's risk in this area is mitigated by insurance policies and a rigorous credit assessment process.

Residential mortgage borrowers

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

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

The Group is not materially exposed to any individual borrower.

The Group exposure to credit risk by geographic region at reporting date is limited to Australia.

(iii) Credit exposure by credit rating

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

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

18. Financial risk management *(continued)*

(d) Accounting classifications and fair values

Fair value hierarchy

The different levels have been defined as follows:

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

Fair value of financial assets and liabilities that are measured at fair value on a recurring basis

There are no financial assets and liabilities measured at fair value on a recurring basis, except the derivative financial liability (refer to note 19 for more detail).

The derivative financial liability is based on a discounted cashflow model using the forward rate curve. The valuation is classified as level 2 in the fair value measurement hierarchy (refer to note 19 for more detail).

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 trailing commission receivables and payables that are initially recognised at fair value and subsequently carried at amortised cost, the carrying amount of all financial assets and liabilities recognised in the Statement of financial position approximate their fair value.

(d) Accounting classifications and fair values (continued)

		CONSOLIDATED		PARENT	
		2016	2015	**2016**	2015
	Note	**$'000**	$'000	**$'000**	$'000
Other financial assets					
Trailing commissions receivable					
• Carrying amount	7	**68,894**	63,829	**47,044**	41,584
• Fair value		**76,412**	74,336	**52,176**	48,143
Other financial liabilities					
Trailing commissions payable					
• Carrying amount	12	**30,158**	27,782	**13,583**	12,223
• Fair value		**33,450**	32,436	**15,066**	14,011

The fair value of trailing commission receivable from lenders and the corresponding payable to members is determined by using a discounted cash flow valuation. These calculations require the use of assumptions which are determined by management, with the assistance of external actuaries, by reference to market observable inputs. The valuation is classified as level 3 in the fair value measurement hierarchy.

Refer to note 7 for the key assumptions underlying the trailing commission receivable and the corresponding payable to brokers and originators at reporting date.

19. Derivative financial liability

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Held for trading	**42**	32	**-**	-
Total derivative financial liability	**42**	32	**-**	-
Notional Principal Amount				
• Less than one year	**975**	1,218	**-**	-
• One to two years	**508**	964	**-**	-
• Two to three years	**778**	672	**-**	-
• Three to four years	**-**	-	**-**	-
• Four to five years	**569**	-	**-**	-
Total notional principal amount	**2,830**	2,854	**-**	-

Recognition and measurement

Interest rate swaps

The Group is exposed to risk from movements in interest rates. As part of the financial risk management strategy set out in note 18, the Group holds interest rate swaps to manage its risks associated with interest rate fluctuations. The Group uses derivative financial instruments and are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

These derivatives are classified as held for trading. Any gains or losses arising from changes in fair value are taken directly to the Statement of comprehensive income. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Master netting arrangements

Homeloans restricts the exposure to credit losses on derivative instruments it holds by entering into master netting arrangements with a Big 4 bank. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in an offset of balance-sheet assets and liabilities unless certain conditions for offsetting under *AASB 132 – Financial Instruments* apply.

Although master-netting arrangements may significantly reduce credit risk, it should be noted that:

- credit risk is eliminated only to the extent that amounts due to the same counterparty will be settled after the assets are realised.
- the extent to which overall credit risk is reduced may change substantially within a short period because the exposure is affected by each transaction subject to the arrangement.

At 30 June 2016, master netting arrangements reduced the credit risk on favourable contracts that have a fair value of $42,000 (2015: ($32,000)).

Hedge accounting

The Group does not apply hedge accounting. Total income recognised from the movement in fair value for the financial year is $10,000 (2015: income of $7,000). Refer to note 18(d) for fair value disclosure.

20. Subsidiaries

The consolidated financial statements include the financial statements of Homeloans Limited and the subsidiaries listed in the following table:

		PERCENTAGE HELD		INVESTMENT	
		2016	2015	**2016**	2015
	Country of Incorporation	**%**	%	**$'000**	$'000
NSW Homeloans Pty Ltd	Australia	**100.0**	100.0	**-**	-
VIC Homeloans Pty Ltd	Australia	**100.0**	100.0	**-**	-
QLD Homeloans Pty Ltd	Australia	**100.0**	100.0	**-**	-
SA Homeloans Pty Ltd	Australia	**100.0**	100.0	**-**	-
WA Homeloans Pty Ltd	Australia	**100.0**	100.0	**-**	-
IF & I Securities Pty Ltd	Australia	**100.0**	100.0	**-**	-
FAI First Mortgage Pty Ltd	Australia	**100.0**	100.0	**-**	-
Access Homeloans	Australia			**6,869**	6,869
Consolidated incorporating:					
- Access Network Management Pty Ltd	Australia	**100.0**	100.0	**-**	-
- Access Homes Pty Ltd	Australia	**100.0**	100.0	**-**	-
- HLL Pty Ltd	Australia	**100.0**	100.0	**-**	-
Independent Mortgage Corporation Pty Ltd	Australia	**100.0**	100.0	**-**	-
RMT Warehouse Trust No. 2	Australia	**100.0**	100.0	**-**	-
RMT Securitisation Trust No. 7	Australia	**100.0**	100.0	**-**	-
Auspack Financial Services Pty Ltd	Australia	**100.0**	100.0	**1,466**	1,466
Barnes Mortgage Management Pty Ltd	Australia	**100.0**	100.0	**2,371**	2,371
				10,706	10,706

20. Subsidiaries *(continued)*

Recognition and measurement

Interests in wholly-owned subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of the parent.

Key judgement

Special purpose entities - RMT Warehouse Trust No 2 and RMT Securitisation Trust No. 7

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 the following special purpose entities to support the specific funding needs of the Group's securitisation programme:

(1) Residential Mortgage Trust No 2 to conduct securitisation activities funded by short term warehouse facilities provided by reputable lenders; and
(2) Residential Mortgage Trust No 7, to hold securitised assets and issue RMBS.

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:

(1) the Group has existing rights that gives it the ability to direct relevant activities that significantly affect the special purpose entities' returns;
(2) the Group is exposed, and has rights, to variable returns from its involvement with the special purpose entities;
(3) the Group has all the residual interest in the special purpose entities;
(4) fees received by the Group from the special purpose entities vary on the performance, or non-performance of the securitised assets; and
(5) 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 Comprehensive Income.

21. Commitments and contingencies

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
Operating lease commitments				
Future minimum rentals payable under non-cancellable operating leases				
Group as lessee				
• Within one year	**1,415**	1,170	**1,415**	1,170
• Greater than one year but not more than five years	**2,258**	2,388	**2,258**	2,388
Total operating lease commitments	**3,673**	3,558	**3,673**	3,558

Recognition and measurement

Operating leases

The Group has entered into commercial leases on its office properties. Lease commitments refer to future undiscounted minimum rentals payable under non-cancellable operating leases not included within this financial report. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Operating lease incentives are recognised as a liability when received and released to earnings on a straight line basis over the lease term.

Fixed rate increases to lease payments, excluding contingent or index based rental increases, such as Consumer Price Index, turnover rental and other similar increases, are recognised on a straight line basis over the lease term.

Superannuation commitments

Contributions by the Company are made at a rate sufficient to meet the entity's superannuation guarantee obligations (9.5% of salary during the year) or at such higher rate as agreed between the employee and the Group.

The entity makes contributions to complying superannuation funds as requested by employees, to meet the requirements of the superannuation guarantee legislation. The entity has no further obligations relating to superannuation commitments.

Capital commitments

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

Contingent liabilities

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

22. Events after balance date

Final dividend to be determined

The Board of Homeloans Limited expects to declare a fully-franked final dividend of 2.0 cents per share prior to the completion of the RESIMAC transaction, but in any event no later than 31 October 2016. This is contingent on the transaction completing and the outstanding share rights vesting. The dividend has not been provided for in these financial statements.

The payment of any dividend is subject to certain conditions as outlined in the SIA.

2016 STI

Due to the proposed RESIMAC merger, the STI for the 2016 financial year was paid in 100% cash on 8 September 2016.

RESIMAC merger

As announced on Wednesday 20 July 2016, Homeloans has entered into a Scheme Implementation Agreement (SIA) with RESIMAC Limited (RESIMAC) to implement a proposal for a merger of Homeloans and RESIMAC.

As part of the proposed merger:

- Homeloans will acquire all of the shares in RESIMAC pursuant to a scheme of arrangement between RESIMAC and its shareholders (the Scheme); and
- shareholders of RESIMAC will be issued new shares in Homeloans as consideration (the Transaction) (together, the Merged Group).

RESIMAC is a non-bank financial institution which has been operating in the Australian market for 30 years and more recently within New Zealand. RESIMAC provides branded and third-party lending products through a variety of distribution channels and has a loan book in excess of $5 billion as at 30 June 2016.

Under the Transaction, RESIMAC shareholders will receive all scrip consideration, through the issue of 285.4 million new ordinary Homeloans shares.

It is expected that upon completion of the Transaction, existing RESIMAC shareholders will hold 72.5% of the Merged Group and existing Homeloans shareholders will hold 27.5% of the Merged Group.

Details of the SIA

As part of the merger, Homeloans will acquire all shares in RESIMAC pursuant to the Scheme under section 411 of the *Corporations Act* between RESIMAC and the holders of RESIMAC Shares. Existing RESIMAC shareholders will also be issued new Homeloans Shares as scheme consideration.

The implementation of the Transaction is subject to a number of customary conditions including the approval by:

- Homeloans' shareholders at the EGM;
- RESIMAC shareholders at the Scheme Meeting; and
- the Federal Court, and there being no material adverse change or prescribed occurrence in relation to either RESIMAC or Homeloans.

The SIA contains customary exclusivity provisions for the benefit of RESIMAC in relation to Homeloans including no shop and no talk restrictions, a notification obligation and a matching right, subject to the Homeloans directors' fiduciary obligations. The SIA also details circumstances under which a break fee may be payable to RESIMAC, or a reverse break fee payable to Homeloans.

Full details of the conditions to the Scheme and other agreed terms are set out in the SIA.

An Explanatory Booklet containing among other things information relating to the Transaction, reasons for the Directors' unanimous recommendation, a notice of meeting containing details of the EGM and the Independent Expert's report was sent to shareholders on 9 September 2016.

Implementation of the Transaction is anticipated by late October 2016, however this remains subject to change, including in relation to the timing of shareholder approvals and the satisfaction of other conditions of the Scheme.

23. Auditor's remuneration

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
Fees of the auditors of the company for:	**$**	$	**$**	$
Audit and/or compliance review of financial reports				
Ernst & Young (Australia)	**286,816**	274,982	**236,177**	236,241
Total audit and review of financial reports	**286,816**	274,982	**236,177**	236,241
Non-assurance related services				
Ernst & Young (Australia)				
• tax and compliance services	**19,776**	29,000	**-**	29,000
• other advisory services	**149,052**	88,837	**149,052**	88,837
Total non-assurance related services	**168,828**	117,837	**149,052**	117,837
Total auditor's remuneration	**455,644**	392,819	**385,229**	354,078

24. Related party transactions

	CONSOLIDATED	
	2016	2015
	$	$
Sales to related parties – major shareholders		
Advantedge Financial Services (Division of National Australia Bank)	**7,433,701**	7,629,480
Macquarie Securitisation Limited	**3,026,164**	2,130,473
Total related party transactions	**10,459,864**	9,759,953

Terms and conditions

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.

Outstanding balances

At 30 June 2016, the following balances are outstanding:

- Advantedge Financial Services, $389,678; and
- Macquarie Securitisation Limited, $260,544.

25. Key management personnel disclosures

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	$	$	**$**	$
Short-term benefits	**1,245,000**	1,179,605	**1,245,000**	1,179,605
Long-term benefits	**13,668**	12,987	**13,668**	12,987
Post-employment benefits	**104,018**	93,738	**104,018**	93,738
Share-based payments	**179,752**	231,221	**179,752**	231,221
Total KMP remuneration	**1,542,438**	1,517,551	**1,542,438**	1,517,551

26. Share-based payments

The Group provides benefits to employees (including KMP) of the Group through share-based incentives. Employees are paid for their services or incentivised for their performance through rights over shares. The expense arising from these transactions is shown in note 2. The total number of ordinary Homeloans shares issued during the financial year to satisfy employee incentive schemes was 379,173.

Recognition and measurement

Equity settled transactions

The cost of equity-settled transactions with employees is measured using their fair value at the date at which they are granted. In determining the fair value, no account is taken of any performance conditions other than those linked to the price of the shares of Homeloans Limited (market conditions). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which any performance conditions (excluding market conditions) are met, ending on the date on which the employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the proportion of the awards that are expected to ultimately vest. No expense is recognised for awards that do not ultimately vest due to a performance condition not being met. The expense is recognised in full if the awards do not vest (or are not exercised) due to a market condition not being met.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above.

Employee Rights Plan

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

2016 LTI share rights plan - performance

	2016 LTI
Grant date	**1 January 2016**
Rights granted (number) [1]	**898,111**
• KMP (number)	**551,471**
Fair value ($)	**$202,973**
• KMP ($)	**$124,633**
Performance conditions	**CAGR of TSR (50%)[2]**
	ASX Small Ordinaries Index (50%)
Performance period/s	**Three tranches**
• T1 – 31 December 2016	
• T2 – 31 December 2017	
• T3 – 31 December 2018	
Vesting conditions	**See table below**

[1] No payment was required on grant or is required on exercise of these share rights.

[2] TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares.

26. Share-based payments *(continued)*

2016 LTI - vesting conditions

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

Performance criteria: CAGR of the TSR of Homeloans

Year	Vesting	Proportion of share rights exercisable
1st year	One third	Less than 10% = 0% 10% = 50% 10%-15% = Straight line vesting between 50-100% 15% or more = 100% If performance conditions are not satisfied any share rights that remain unvested will be tested again at 31 December 2017.
2nd year	One third	Performance conditions are as above and if not satisfied, any rights that remain unvested will be tested again at 31 December 2018.
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.

Performance criteria: HomeloansTSR compared to the ASX Small Ordinaries Index

Percentage of outperformance against the ASX Small Ordinaries Index

1st year	One third	TSR below ASX Small Ords Index TSR	= 0%
		TSR equal to ASX Small Ords Index TSR	= 50%
		TSR outperforms Index TSR by less than 25%	= An additional 2% vests for each 1% above
		TSR outperforms Index TSR by 25%+	= 100%
2nd year	One third	Performance conditions are as above and if not satisfied, any that remain unvested will be tested again at 31 December 2018.	
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.	

26. Share-based payments *(continued)*

2015 LTI share rights plan - performance

	2015 LTI
Grant date	1 January 2015
Rights granted (number) [1]	712,499
• KMP (number)	437,499
Fair value ($)	$206,625
• KMP ($)	$126,876
Performance conditions	CAGR of TSR *(50%)*[2] ASX Small Ordinaries Index *(50%)*
Performance period/s • T1 – 31 December 2015 • T2 – 31 December 2016 • T3 – 31 December 2017	Three tranches
Vesting conditions	See table below

[1] No payment was required on grant or is required on exercise of these share rights.
[2] TSR is determined as the total change in the value of shares over a period plus the value of any dividends and other distributions being treated as if they were re-invested in shares.

2015 LTI - vesting conditions

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

Performance criteria: CAGR of the TSR of Homeloans

Year	Vesting	Proportion of share rights exercisable
1st year	One third	Less than 10% = 0% 10% = 50% 10%-15% = Straight line vesting between 50-100% 15% or more = 100% If performance conditions are not satisfied any share rights that remain unvested will be tested again at 31 December 2016.
2nd year	One third	Performance conditions are as above and if not satisfied, any rights that remain unvested will be tested again at 31 December 2017.
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.

26. Share-based payments *(continued)*

2015 LTI - vesting conditions

Performance criteria: HomeloansTSR compared to the ASX Small Ordinaries Index

Year	Vesting	Proportion of share rights exercisable
Percentage of outperformance against the ASX Small Ordinaries Index		
1st year	One third	TSR below ASX Small Ords Index TSR = 0% TSR equal to ASX Small Ords Index TSR = 50% TSR outperforms Index TSR by less than 25% = An additional 2% vests for each 1% above TSR outperforms Index TSR by 25%+ = 100% If performance conditions are not satisfied any share rights that remain unvested will be tested again at 31 December 2016.
2nd year	One third	Performance conditions are as above and if not satisfied, any rights that remain unvested will be tested again at 31 December 2017.
3rd year	One third	Performance conditions are as above but if not satisfied in this year, the rights will lapse.

2016 STI deferred share rights plan

Due to the potential merger with RESIMAC, for the 2016 financial year:

- the STI will be settled in 100% cash; and
- there will be no deferred rights awarded.

2015 STI deferred share rights plan and LTI tenure share rights

	2015 STI	2015 LTI Tenure
Grant date	1 July 2014	17 April 2015
Performance conditions	Continuing employment	Continuing employment
Rights granted (number) [1]	243,306	292,553
Fair value ($)	$177,613	$152,672
• KMP ($)	$90,107	$152,672
Vesting date and number of rights vested		
• 1 September 2016	243,306	-
• 31 December 2015	-	42,553
• 17 April 2016	-	83,333
• 17 April 2017	-	83,333
• 17 April 2018	-	83,334

1 No payment was required on grant or is required on exercise of these share rights.

26. Share-based payments *(continued)*

Equity settled awards outstanding

The following table includes share rights outstanding at 30 June 2016 issued to KMP and employees are as follows:

	Number of rights #	Fair value of grant $
Balance at 1 July 2014	854,216	478,672
Granted during the year		
• 2015 LTI	1,005,052	359,297
• 2015 STI	243,306	177,613
Vested during the year		
• 2013 STI	(101,130)	(63,976)
Balance outstanding at 30 June 2015	2,001,444	951,606
Granted during the year		
• 2016 LTI	**898,111**	**202,973**
Vested during the year		
• 2014 LTI	**(233,247)**	**(173,020)**
• 2014 STI	**(145,924)**	**(96,383)**
Balance outstanding at 30 June 2016	**2,520,384**	**885,176**
2015 STI	**243,306**	**177,613**
Vested at the end of the year	**243,306**	**177,613**

There are a total of 2,520,384 rights outstanding at 30 June 2016.

26. Share-based payments *(continued)*

The following table summarises the rights held by KMP and employees at 30 June 2016:

Type of plan	Number of rights (#)	Grant date	Vesting date/s	Expiry date	Fair value of rights ($)	Share price at grant date (cents)
Tenure						
2015	250,000	17 Apr 2015	17 Apr 2016 - 17 April 2018	17 Apr 2018	0.45 - 0.53	0.57
Total tenure rights	250,000					
LTI						
2016						
CAGR TSR	449,056	1 Jan 2016	31 Dec 2016 - 31 Dec 2018	31 Dec 2018	0.19 - 0.22	0.48
Index TSR	449,055	1 Jan 2016	31 Dec 2016 - 31 Dec 2018	31 Dec 2018	0.24 - 0.25	0.48
Total 2016 LTI	898,111					
2015						
CAGR TSR	356,249	1 Jan 2015	31 Dec 2015 - 31 Dec 2017	31 Dec 2017	0.23 - 0.28	0.63
Index TSR	356,250	1 Jan 2015	31 Dec 2015 - 31 Dec 2017	31 Dec 2017	0.32 - 0.33	0.63
Total 2015 LTI	712,499					
2014						
CAGR TSR	208,234	1 Jan 2014	31 Dec 2014 - 31 Dec 2016	31 Dec 2016	0.41	0.84
Index TSR	208,234	1 Jan 2014	31 Dec 2014 - 31 Dec 2016	31 Dec 2016	0.37 - 0.41	0.84
Total 2014 LTI	416,468					
Total LTI rights	2,027,078					
STI						
2015	243,306	1 July 2014	1 Sept 2016	1 Sept 2016	0.73	0.75
Total STI rights	243,306					
Total rights held	2,520,384					

26. Share-based payments *(continued)*

The following table summarises the rights held by KMP and employees at 30 June 2015:

Type of plan	Number of rights (#)	Grant date	Vesting date/s	Expiry date	Fair value of rights ($)	Share price at grant date (cents)
Tenure						
2015						
S McWilliam	149,578	1 Jan 2014	30 June 2015	30 June 2015	0.77	0.84
	250,000	17 Apr 2015	17 Apr 2016 - 17 April 2018	17 Apr 2018	0.45 - 0.53	0.57
I Parkes	42,553	1 Aug 2014	31 Dec 2015	31 Dec 2015	0.71	0.80
R Hair	41,118	11 June 2014	31 Dec 2015	31 Dec 2015	0.67	0.77
Total tenure rights	483,249					
LTI						
2015						
CAGR TSR	356,249	1 Jan 2015	31 Dec 2015 - 31 Dec 2017	31 Dec 2017	0.23 - 0.28	0.63
Index TSR	356,250	1 Jan 2015	31 Dec 2015 - 31 Dec 2017	31 Dec 2017	0.32 - 0.33	0.63
Total 2015 LTI	712,499					
2014						
CAGR TSR	208,234	1 Jan 2014	31 Dec 2014 - 31 Dec 2016	31 Dec 2016	0.41	0.84
Index TSR	208,234	1 Jan 2014	31 Dec 2014 - 31 Dec 2016	31 Dec 2016	0.37 - 0.41	0.84
Total 2014 LTI	416,468					
Total LTI rights	1,128,967					
STI						
2014	145,922	1 July 2013	1 Sept 2015	1 Sept 2015	0.66	0.94
2015	243,306	1 July 2014	1 Sept 2016	1 Sept 2016	0.73	0.75
Total STI rights	389,228					
Total rights held	2,001,444					

26. Share-based payments *(continued)*

Fair value of rights granted during the year

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

Granted in 2016 financial year

	2016 LTI	
	CAGR of TSR	Index performance
Grant date	6 January 2016	6 January 2016
Grant date share price (cents)	$0.48	$0.48
Stock volatility (per cent)	40%	40%
Index volatility (per cent)	N/A	15%
Correlation	N/A	0.10
Dividend type	Continuous	Continuous
Dividend yield (per cent)	6.67%	6.67%
Risk-free rate (per cent)	1.98%	1.98%
Fair value (cents)	$0.22	$0.24

Granted in 2015 financial year

			2015 LTI	
	2015 STI	2015 Tenure	CAGR of TSR	Index performance
Grant date	1 Sept 2015	17 April 2015	7 January 2015	7 January 2015
Grant date share price(cents)	$0.51	$0.57	$0.60	$0.60
Stock volatility (per cent)	32.5%-37.5%	32.5%-42.5%	37.5%-42.5%	40%
Index volatility (per cent)	N/A	N/A	N/A	17%
Correlation	N/A	N/A	N/A	(0.03)
Dividend type	Discrete	Discrete	Continuous	Continuous
Dividend yield (per cent)	N/A	N/A	6.84%	6.84%
Risk-free rate (per cent)	1.84%	1.77%-1.87%	2.09%	2.09%
Fair value (cents)	$0.73	$0.53	$0.28	$0.33

27. Other accounting policies

(a) New and amended accounting standards and interpretations adopted from 1 July 2015

All new and amended Australian Accounting Standards (AAS) and interpretations mandatory as at 1 July 2015 to the Group have been adopted, including:

Reference	Description
AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments - Part A & B*	This Standard makes amendments to a number of AAS as a result of the issuance of AASB CF 2013-1 and makes amendments to particular AAS to delete references to AASB 1031.
AASB 2015-3 *Amendments to Australian Accounting Standards – Arising from the Withdrawal of AASB 1031 Materiality*	This Standard completes the AASB's project to remove Australian guidance on materiality from AAS.

(b) New and amended standards and interpretations issued but not yet effective

The following standards, amendments to standards and interpretations are relevant to current operations. They are available for early adoption but have not been applied by the Group in this financial report.

Assessment of the expected impacts of these standards and interpretations is ongoing.

Reference	Description	Application of Standard	Application by Group
AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*	AASB 2014-3 amends AASB 11 *Joint Arrangements* to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.	1 January 2016	1 July 2016
AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation*	The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of an intangible asset.	1 January 2016	1 July 2016

27. Other accounting policies *(continued)*

Reference	Description	Application of Standard	Application by Group
AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle*	The amendment makes changes to a number of accounting policies including: • the methods of disposal in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, • disclosure requirements in AASB 7 *Financial Instruments: Disclosures;* • AASB 134 *Interim Financial Reporting; and* • clarification of discount rates utilised in AASB 119 *Employee Benefits*.	1 January 2016	1 July 2016
AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*	The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project.	1 January 2016	1 July 2016
AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	This Standard amends AASB112 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	1 July 2017
IFRS 2 *Classification and Measurement of Share- based Payment Transactions*	This Standard amends IFRS2 *Share-based Payment*, clarifying how to account for certain types of share-based transactions.	1 January 2018	1 July 2018

27. Other accounting policies *(continued)*

Reference	Description	Application of Standard	Application by Group
The effects of the following standards is still being determined			
AASB 16 *Leases*	The key features of AASB 16 are as follows: Lessee accounting • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains disclosure requirements for lessees. Lessor accounting • AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. AASB 16 supersedes: (a) AASB 117 Leases; (b) Interpretation 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases—Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as AASB 16.	1 January 2019	1 July 2019

27. Other accounting policies *(continued)*

Reference	Description	Application of Standard	Application by Group
AASB 9 *Financial Instruments*	AASB 9 is a new standard that replaces AASB 139 and includes a model for classification and measurement, a single forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The main changes include: **Financial assets** (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. **Financial liabilities** Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and • The remaining change is presented in profit or loss. AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. **Impairment** The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.	1 January 2018	1 July 2018
AASB 15 *Revenue from Contracts with Customers*	This Standard establishes new principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers and supersedes a number of current Revenue Standards. The core principle of the Standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	1 January 2018	1 July 2018

27. Other accounting policies *(continued)*

(c) De-recognition of financial instruments

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

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

(d) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments*: *Recognition and Measurement* are classified as either:

- financial assets held for trading; or
- loans and receivables;

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not held for trading, directly attributable transactions costs. The Group determines the classification of its financial assets on initial recognition.

Purchases and sale of financial assets

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

Financial assets held for trading

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

(d) 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 of Cash flows statement 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.

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Independent auditor's report to the members of Homeloans Limited

Report on the financial report

We have audited the accompanying financial report of Homeloans Limited, which comprises the statements of financial position as at 30 June 2016, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Building a better working world

Opinion

In our opinion:

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

   i. giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2016 and of their performance for the year ended on that date;

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Homeloans Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

V L Hoang
Partner
Perth
22 September 2016

Shareholder information

Additional information required by the ASX and not disclosed elsewhere in this report is set out below. The information is current as at 12 September 2016.

(a) Number of holders of equity securities

Ordinary share capital

105,970,525 fully paid ordinary shares are held by 784 individual shareholders.

(b) Voting rights

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

(c) Distribution of members and their holdings

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

Size of holdings	No. of shareholdings	%
1 to 1,000	85	0.05%
1,001 to 5,000	291	0.73%
5,001 to 10,000	117	0.86%
10,001 to 100,000	243	8.02%
100,001 and over	48	90.34%
Total	**784**	**100.00%**
Unmarketable parcels [1]	86	

[1] Defined by the ASX as being less than $500.

(d) Substantial shareholders

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

Size of holdings	No. of shares
Macquarie Group Limited	21,159,193
National Australia Bank Limited	18,983,030
Redbrook Nominees & Acres Holdings Pty Ltd	14,685,856
Robert Peter Cockburn Salmon and Peterlyn Pty Ltd (Salmon Family Fund Account) and Peterlyn Pty Ltd (Salmon Superfund Account)	10,977,449
Total	**65,805,528**

Homeloans Limited announced to the market that the company had entered into a Scheme Implementation Agreement with RESIMAC Limited on 20th July 2016.

Homeloans Limited then received two initial substantial shareholding notices in respect of the following shares:

- Ingot Capital Management Pty Ltd and Somers Limited totalling 21,039,716 shares.

The shares are not held by either of these parties as at the date of this Report.

(e) Twenty largest shareholders

The 20 largest shareholders of ordinary shares on the company's register at 12 September 2016 were:

Shareholder	Number of shares held	% of issued capital
Macquarie Bank Limited (Strategic Investments A/c)	21,159,193	19.97
National Australia Bank Limited	18,983,030	17.91
Redbrook Nominees Pty Ltd	13,188,775	12.45
Tico Pty Ltd (TA Holmes Family Fund A/c)	8,123,944	7.67
Peterlyn Pty Ltd (Salmon Family Account)	5,987,497	5.65
Peterlyn Pty Ltd (RPC Salmon Super Fund A/c)	4,625,359	4.36
Hartley Phillips Securities Pty Ltd (Hartley Phillips INV TST A/c)	4,612,318	4.35
Bond Street Custodians Limited (CPCPL-V73544 A/c)	4,157,016	3.92
Top 4 Pty Ltd (The Foundation INV S/F A/c)	3,446,312	3.25
Ferber Holdings Pty Ltd (Scott Super Fund A/c)	1,661,497	1.57
Acres Holdings Pty Ltd	1,496,881	1.41
Daisson Holdings Pty Ltd (Lonie Super A/c)	600,000	0.57
Gemtrick Pty Ltd (The John Harris Family A/c)	585,000	0.55
Bond Street Custodians Limited (CPCPL-V74970 A/c)	503,564	0.48
Carpenter Nominees Pty Ltd (Robert Scott Family A/c)	494,619	0.47
JAMAC Holdings Pty Ltd	429,955	0.41
Beneficial Home Loans Pty Ltd	414,958	0.39
NSR Investments Pty Ltd (NSR Super Fund A/c)	385,788	0.36
Terrine Investments Pty Ltd	376,000	0.35
Mr Robert Peter Salmon	364,593	0.34
Total	**91,596,299**	**86.43**

The percentage holding of the 20 largest shareholders of Homeloans ordinary shares was 86.4%.

(f) Voluntary escrow

94,949 securities are subject to voluntary escrow. The escrow period ends the earlier of twelve months from the date on which the shares are quoted on the ASX and 31 August 2017.

(g) Share buyback

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

Investor information

Managing your shareholding

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

The Investor Centre website is the fastest, easiest and most convenient way to view and manage your shareholding. Investor Centre enables a shareholder to:

- view the company share price;
- change your banking details;
- change your address (for non-CHESS sponsored holdings);
- update your dividend instructions;
- update your Tax File Number (TFN), Australian Business Number (ABN) or exemption;
- select your email and communication preferences; and
- view your transaction history.

When communicating with Computershare or accessing your holding online you will need your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on your Issuer Sponsored/CHESS statements.

You can also contact Computershare by:

Address

Level 11
172 St Georges Terrace
Perth, Western Australia, 6000

Postal address

GPO Box D182
Perth, Western Australia, 6840

Telephone: 1300 850 505
Facsimile: (+61 8) 9323 2033

Website: www.investorcentre.com/contact

Tax file numbers

While it is not compulsory to provide a TFN, if shareholders have not provided a TFN and Homeloans pays an unfranked or partly franked dividend, the company will be required to deduct tax from the unfranked portion of the dividend at the top marginal rate plus the Medicare Levy.

Information on Homeloans

Homeloans website

Up-to-date information on the company can be obtained from the company's website **www.homeloans.com.au**

Securities exchange listing

The company's shares are listed on the ASX and the Home Exchange is Perth. Ordinary shares are traded under the code, HOM.

Share prices can be accessed from major Australian newspapers, the Homeloans website or at **www.asx.com.au**

Corporate Information

Registered office

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Email: info@homeloans.com.au
Customer enquiries: 13 38 39

Website: **www.homeloans.com.au**

Corporate office

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Sydney, NSW, Australia, 2000

Telephone: (+61 2) 8267 2000
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Non-executive directors

Robert Scott, Chairman
Robert Salmon
Michael Starkey

Company secretary

Jennifer Murray

Share registry

Computershare Investor Services Pty Limited

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Website: www.investorcentre.com

Website

To view the 2016 annual report, shareholder and company information, news announcements, background information on Homeloans businesses and historical information, visit the Homeloans website at **www.homeloans.com.au**