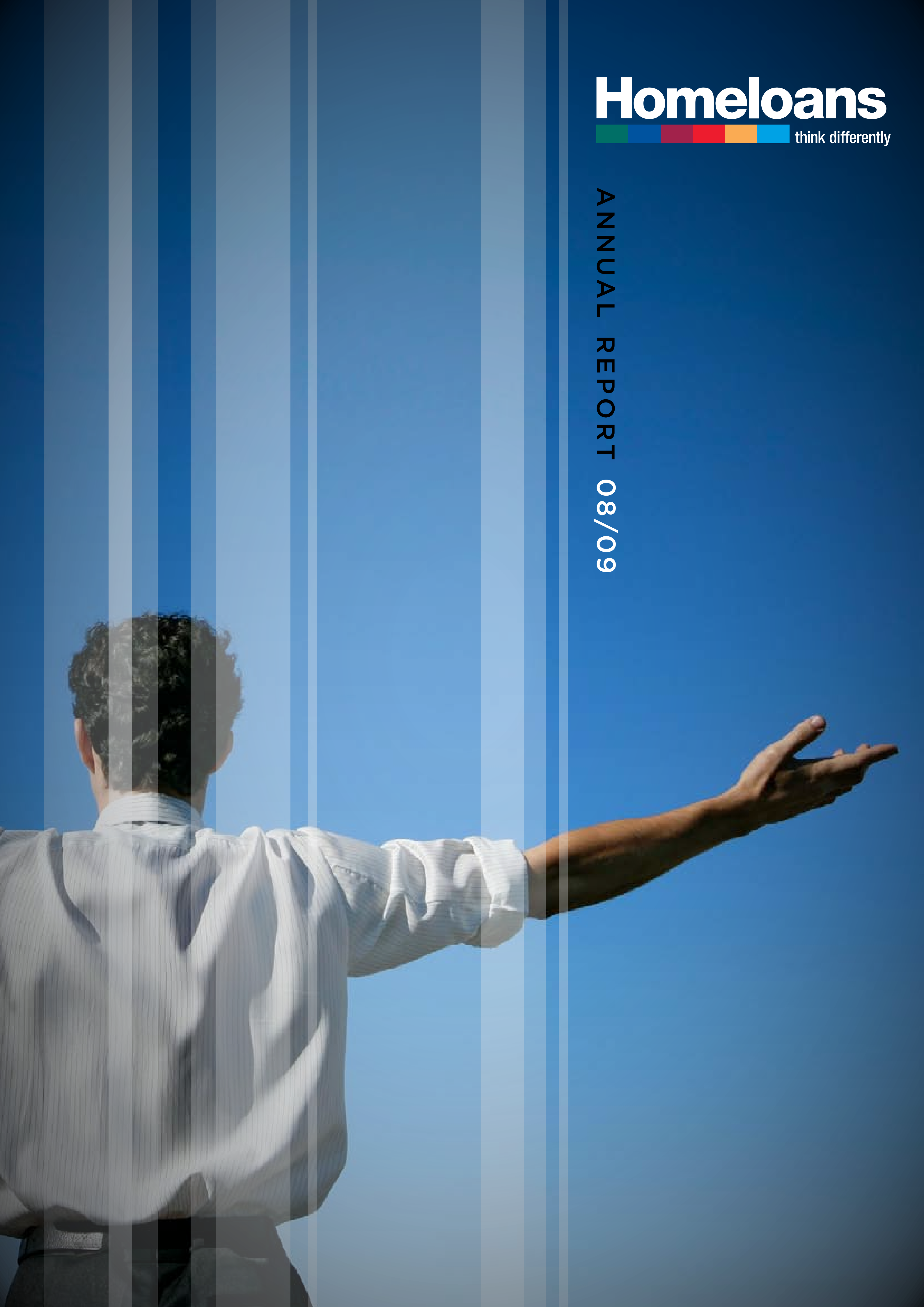

Homeloans

think differently

ANNUAL REPORT 08/09

Corporate information

This Annual Report covers both Homeloans Limited as an individual entity and the consolidated entity's financial report incorporating Homeloans Limited and the entities that it controlled during the financial year. The consolidated entity's functional and presentation currency is AUD ($).

A description of the consolidated operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 8 to 23.

DIRECTORS

Timothy Holmes
(Executive Chairman,
Managing Director)

Brian Jones
(Managing Director) resigned
on 30 September 2008

Robert Salmon
(Non-Executive Director)

Robert Scott
(Non-Executive Director)

Brian Benari
(Non-Executive Director)

Dominic Stevens
(Non-Executive Director)
resigned on 28 October 2008

Andrew Hall
(Non-Executive Director)
appointed on 28 October 2008

COMPANY SECRETARY

Jennifer Murray

REGISTERED OFFICE

Level 9, The Quadrant
1 William Street
Perth WA 6000

Phone: (08) 9327 1777
Facsimile: (08) 9327 1778

CORPORATE OFFICE

Level 7, BT Tower
1 Market Street
Sydney NSW 2000

Phone: (02) 8267 2007
Facsimile: (02) 8267 2045

NATIONAL OFFICE

Level 2, The Atrium
168 St Georges Terrace
Perth WA 6000

Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
Web site: www.homeloans.com.au

POSTAL ADDRESS

PO Box 7216
Cloisters Square
Perth WA 6850

SHARE REGISTRY

Computershare Investor
Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

Phone: (08) 9323 2000
Facsimile: (08) 9323 2033

BANKERS

Westpac Institutional Bank
Westpac Place, Kent Tower
275 Kent Street
Sydney NSW 2000

AUDITORS

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

Contents

Tim Holmes

Executive Chairman's Report

'On behalf of your Board I am delighted to present the 2009 Annual Report for Homeloans Limited.

It is particularly pleasing and a testament to the quality of our staff and executive group that in a year still largely embroiled in the global financial crisis and its obvious impact on the Australian mortgage market, Homeloans was able to achieve a record profit for the 12-month period.'

For the year ended 30 June 2009, Homeloans recorded a full year net profit after tax and before non cash adjustments of $8.3m, up 78% on the comparable previous financial year result of $4.7m.

As a result of the continued impact the global financial crisis has had on the mortgage lending market in Australia during the year, Homeloans has made a net write down of $1.1m after tax, predominantly relating to goodwill associated with its "Origination and Management" segment. This non cash adjustment results in a statutory profit of $7.2m

This was a particularly strong result achieved in a difficult year that saw lending volumes down, particularly in the first half as a result of the sub-prime meltdown and resultant global financial crisis.

Reduced lending volumes impacted net fee and commission income which was down 15% to $10.7m and total revenue which was down 17% to $101m. A 16% reduction in operating expenses (excluding loan loss provisioning) to $17.1m and a 42% increase in net interest income, however, contributed to the improved performance.

Basic earnings per share before non cash adjustments increased by 81% to 8.38 cents per share (8.38 cents on a diluted basis). Net tangible asset backing per share increased 21% to 53.3 cents compared to 30 June 2008.

The sharp focus on improving operational efficiencies across the business, developing more effective distribution channels and maintaining margins contributed to our significantly improved bottom line.

During the year Homeloans focused on improving its product range and expanding its distribution capabilities. This, together with continued access to a diversified funding base, places Homeloans in a very sound position as economic conditions improve. The Group has further consolidated its capital position with significant surplus cash reserves and will continue to seek opportunities for strategic acquisitions to add value to the business in the future.

INDUSTRY OVERVIEW

Throughout the period the operating environment continued to be challenging for the non-bank lending sector. Despite experiencing some resurgence in home loan activity during the second half, largely as a result of the boost to the First Home Owners' Grant, the continuation of tight credit markets and a tightening of lending criteria across the home loan market impacted on the sector.

The major banks continued to exert dominance over the mortgage sector to the extent that their market share of residential mortgage balances increased to nearly 90%. A key driver of this trend has been the failure of non-bank funding markets, in particular the securitisation of Residential Mortgage Backed Securities (RMBS), to re-open following the onset of the global financial crisis.

The premium on interest rates attracted to RMBS has impacted on the ability to compete with the balance sheet lending of the major banks. The situation has improved slightly in recent times but still has a long way to go before RMBS again becomes a viable funding alternative which allows non-bank lenders to compete with the major banks.

During the past 12 months, institutions, banks and investors in RMBS have become more risk averse with a resultant tightening of credit. We expect these tight credit conditions to continue until the residential mortgage market is reassessed by investors and the premium they are seeking for investments in this sector is reduced as demand and competition increases.

The consolidation of the industry in general, will present opportunities for Homeloans in the future. The opportunity to build a strong independent brand based on a range of product and service differentiators is far greater than it has been in the past.

The acquisition by National Australia Bank of the mortgage business of our major shareholder Challenger Financial Services, which includes the 40% shareholding held by Challenger in Homeloans, was still pending at the time this Annual Report went to print. Homeloans shareholders will have the opportunity to vote on the transfer of shares at the upcoming AGM. It is my belief that the proposed acquisition of Challenger Financial Services by NAB would be positive for Homeloans.

In closing, I wish to thank my fellow Directors and the staff of Homeloans Limited for their ongoing support throughout the year.

Tim Holmes
Executive Chairman

The Year in Review

PROFIT

Homeloans recorded a full year net profit after tax and before non cash adjustments of $8.3m. After a net non cash write down of $1.1m after tax, the Company recorded a statutory net profit after tax of $7.2m

The net tangible asset backing was 53.3 cents per share.

DIVIDEND

The Board has declared a fully franked final dividend of 5.5 cents per share bringing the total to 7.0 cents per share for the year fully franked. On the normalised profit result of $8.3m, this represents a payout ratio of 84%.

EARNINGS PER SHARE

Basic earnings per share before non cash adjustments increased by 81% to 8.38 cents per share (8.38 cents on a diluted basis).

CHANGES TO THE BOARD OF DIRECTORS

The previous Managing Director Brian Jones left Homeloans on 30 September 2008. As a result and effective from 1 October 2008, the Chairman Tim Holmes assumed the role of Managing Director.

Dominic Stevens resigned on 28 October 2008 and Andrew Hall was appointed on 28 October 2008.

MANAGEMENT AND PERSONNEL

Homeloans Limited has 104 full time equivalent staff and 34 retail consultants nationally. Homeloans Limited's objective when recruiting staff is to identify and employ staff who fit the corporate culture of the company and facilitate their growth within the business. Skills are developed by a combination of mentoring, training and on the job experience, expanding their knowledge of the industry.

During the year Homeloans appointed Will Keall as National Marketing Manager with responsibility for marketing strategy, planning and implementation across corporate, retail and broker channels, as Homeloans seeks to build its national brand presence.

As well Greg Mitchell was appointed General Manager Retail to focus and reposition ourselves back into the retail market, while Tony Carn was appointed General Manager Third Party Distribution with responsibility for our broker network. To bring operations in line with product development and pricing, Scott McWilliam was appointed General Manager Operations.

DISTRIBUTION

Over the last 25 years Homeloans Limited has grown from a small West Australian mortgage manager to a leading national non-bank lender that originates and manages a comprehensive range of loans for home owners and investors.

As Australia's non-bank lending industry has evolved, Homeloans has developed two distinct distribution channels to reach Australian borrowers: third party – whereby our mortgage broker partners distribute loans to the end customer – and direct distribution to customers via our mobile lenders and satellite offices.

DISTRIBUTION – THIRD PARTY

The past year was very challenging as the major banks swallowed up in excess of 90% of new home lending flows. This flight to "perceived" quality has been driven by the uncertainty generated by the global economic meltdown and sub-prime lending crisis and has made it difficult to build customer and introducer confidence in any brand outside of the major banks.

With this in mind Homeloans proactively repositioned its value proposition in third party distribution to compete as a viable alternative to the majors. In the last financial year we have moved from having around 50% of our distribution being in the full doc category, to 90% by June 2009. With this shift in the makeup of our new loan origination, we have doubled full doc origination volumes.

We are now seeing more introducers seeking to establish sound partnerships with lenders outside the majors, and particularly those with a strong financial position and demonstrated commitment to third party distribution.

In 2009, Homeloans joined the Mortgage Choice panel. This has enabled our sales force to establish new and high quality relationships with franchisees. We also joined the Smartline panel which will broaden our distribution footprint.

We have maintained very strong relationships with key funding partners, and we view NAB's planned acquisition of Challenger Mortgage Management as a clear demonstration of the sound future of third party distribution in Australia.

In 2009 Homeloans proudly received an MFAA Excellence Award and was identified as the No. 1 mortgage originator by Mortgage Business magazine.

DISTRIBUTION - DIRECT SALES

Our retail distribution channel continues to be a key component of Homeloans distribution with strong representation in Western Australia and South Australia and expansion into New South Wales and Victoria through the acquisitions in recent years of Independent Mortgage Corporation (IMC) and Auspak.

We expect the growth of new business referral relationships and loan consultants to assist in driving stronger profitability in the year ahead.

Homeloans retail channel has achieved critical advantages as a result of the completion of the operational and data migration to the National Mortgage Brokers (nMB) platform. This migration provides key economic and competitive advantages for our loan writers, particularly as dealing with lenders becomes increasingly complex.

The opportunity for our retail sales consultants to sell non-managed (bank) products through the nMB agreement, as well as Homeloans managed products, has enabled Homeloans to retain customers who we may not have otherwise been able to service.

PRODUCTS AND MARKETING

Homeloans has recorded some significant achievements in re-engineering key products to ensure competitive pricing and significantly reduced Deferred Establishment Fee (DEF) structures. These have ensured that our financial strength and capability remain a standout in the non bank and mortgage management segment.

We have maintained a superior service reputation for turnaround times, credit knowledge and pipeline management.

During the year Homeloans also launched a new retail marketing campaign that aimed to take advantage of the growing customer dissatisfaction with the major banks. The campaign adopted an irreverent approach while also sending a clear message asking customers to question whether they are getting the best deal from their current mortgage provider.

Homeloans has also recently invested in enhancing its understanding of its customers and target markets. Insights attained by this exercise will be used to build Homeloans' national presence over the coming year.

Another focus in the immediate future will be on existing customer relationships. A customer contact strategy has been created, and procurement of a Customer Relationship Management (CRM) system is of a high priority, in order to implement the contact strategy.

Homeloans has positioned to differentiate itself from other mortgage providers. We have developed an extensive product range to meet the broad range of customer needs from the first home owner to the seasoned investor. This product range includes no-frills low rate loans, offset home loans, all in one facilities, lines of credit, construction and bridging finance.

FUNDING

Once again the higher costs of funding during the year in review put considerable pressure on all financial institutions - banks and non-banks alike. However, having access to multiple funding lines has allowed us to scale back our proprietary funding line RMT where funding pressure was greatest, and redistribute this volume to other funders where pricing was more attractive.

THE YEAR AHEAD

The worst of the global financial crisis now appears to be over and there is a rebuilding of confidence. The combination of a real alternative to the majors and a sound diversified funding base gives us optimism about our capacity to take advantage of improved operating conditions as we enter a new cycle.

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Homeloans Limited

FINANCIALS 2009

Directors' Report

Your directors submit their report for the year ended 30 June 2009.

DIRECTORS

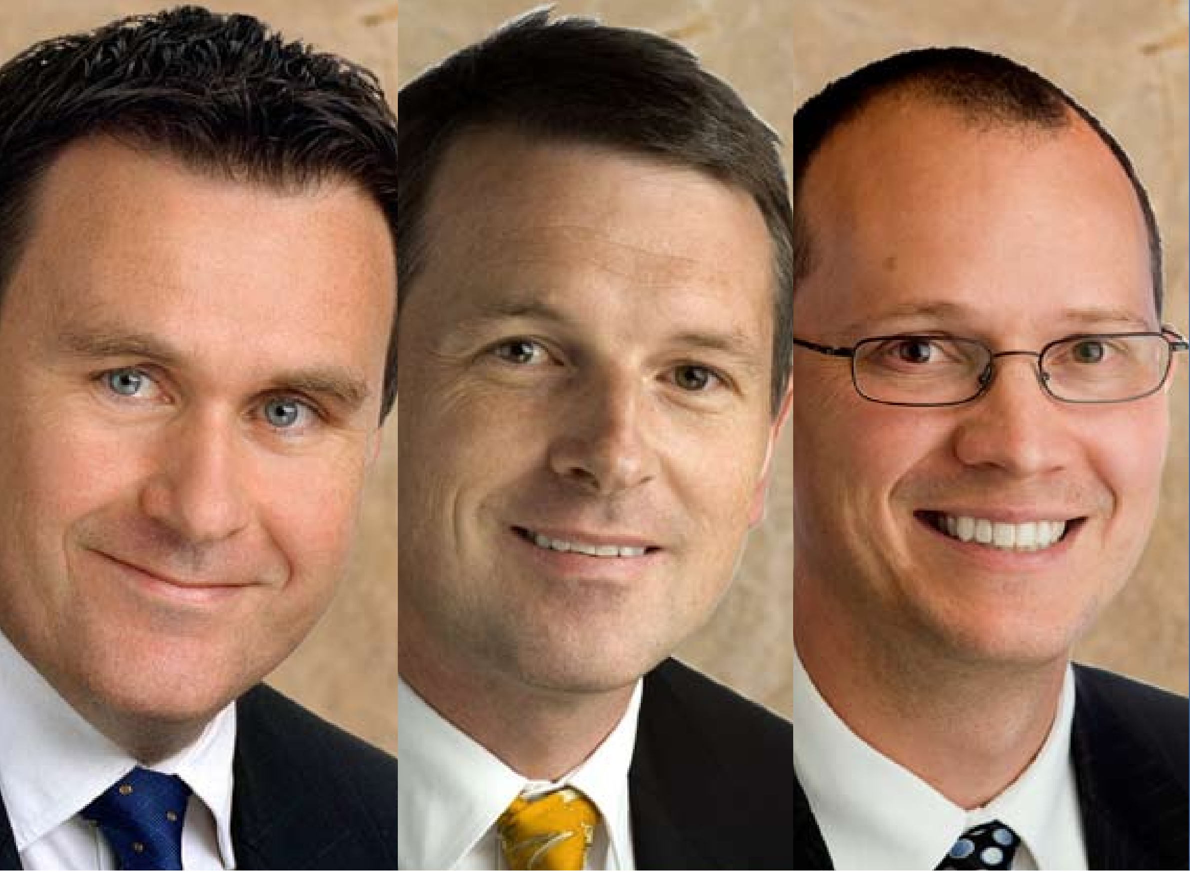
The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Timothy Alastair Holmes (Executive Chairman)
Tim was appointed Managing Director on 1 October 2008. This appointment was made on an interim basis following the departure of the previous Managing Director Brian Jones. Tim is also Chairman of the Board (appointed 1 July 2003) and was previously appointed as a director on 9 November 2000. He has 41 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He is also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry.

Robert Peter Salmon (Non-Executive Director)
Appointed 9 November 2000. Rob has 39 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia. Rob is a member of the company's audit and remuneration and nomination committees.

Brian Donald Jones (Managing Director, until 30/9/08)
Appointed to the Board in an executive capacity on 26 May 2004.



The Directors (left to right)
Timothy Alastair Holmes, Robert Peter Salmon, Brian Donald Jones, Robert Norman Scott, Brian Roland Benari, Dominic Stevens, Andrew Loddington Hall

Robert Norman Scott (Non-Executive Director)
Appointed 9 November 2000, Rob is a Chartered Accountant with over 42 years experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995. Rob now consults on corporate structuring and taxation to Perth based Gooding Pervan Chartered Accountants. Rob is chairman of the company's audit committee and is a member of the company's remuneration and nomination committee.

Rob serves as a director of the following listed companies:

- Amadeus Energy Ltd (Appointed 30 October 1996)
- BioMD Limited (Appointed 23 June 1999) - Chairman
- Australian Renewable Fuels Limited (Appointed 24 December 2002)
- Neptune Marine Services limited (Appointed 17 May 2007)
- CGA Mining Limited (Appointed 8 January 2009)

Previously served as a director of New Guinea Energy Ltd (Appointed 17 July 2006 to 31 May 2009)

Brian Roland Benari (Non-Executive Director)
Appointed 3 May 2007. Brian is the Chief Financial Officer/Chief Operating Officer of Challenger Financial Services Group Limited. Prior to his appointment to this role in November 2008, Brian was Chief Executive of Challenger Mortgage Management. He led the acquisition by Challenger of Interstar Securities, Australia's largest non-bank lender from Zurich Capital Markets. Prior to this Brian was formerly Chief Operating Officer/Chief Financial Officer with Zurich Capital Markets, and also held senior executive roles with Macquarie Bank and Bankers Trust. Brian is a Chartered Accountant and has a Bachelor of Business from Curtin University (WA). Brian is a member of the company's audit committee and was also a member of the company's renumeration and nomination committee during the year.

Dominic Stevens (Non-Executive Director, until 28/10/08)
Appointed on 3 May 2007, Dominic is the Chief Executive Officer and Managing Director of Challenger Financial Services Group Limited. Prior to his appointment to this role in August 2008, Dominic was the Deputy Managing Director of Challenger Financial Services Group Limited where he was responsible for overseeing their Capital, Risk and Strategy operation. Prior to this Dominic was Senior Managing Director of Zurich Capital Markets (Asia region). Dominic has a Bachelor of Commerce (Hons) Finance (UNSW) and is a member of the Australian Institute of Company Directors. Dominic was a member of the company's audit committee.

Andrew Loddington Hall (Non-Executive Director)
Appointed 28th October 2008. Andrew is the Chief Executive of Challenger Mortgage Management. Prior to his appointment to this role in November 2008, Andrew was the Chief Financial Officer / Chief Operating Officer of Challenger Mortgage Management. Before joining Challenger in 2003, Andrew held senior executive roles at Zurich Capital Markets, Macquarie Bank and Bankers Trust. Andrew is a Chartered Accountant and has a Bachelor of Business from the University of Technology, Sydney, and is also an associate of FINSIA. Andrew is a member of the company's audit committee and is chairman of the company's remuneration and nomination committee.

COMPANY SECRETARY

Jennifer Murray
Jennifer Murray was appointed company secretary to Homeloans Limited on 9 November 2000. She is a Chartered Secretary and has over 26 years experience in providing corporate secretarial services for both public and proprietary companies. She is presently the Senior Manager, Corporate Secretarial Services for Perth based Gooding Pervan Chartered Accountants.

DIRECTORS' REPORT (continued)

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

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

	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
T A Holmes	12,476,795	NIL
R P Salmon	12,114,186	NIL
R N Scott	2,078,954	NIL
B R Benari	NIL	NIL
A Hall	NIL	NIL

DIVIDENDS

	CENTS	$'000
Final dividends recommended:		
- on ordinary shares	5.5	5,417
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (100% Franked)	1.5	1,489
Final dividend for 2008		
- on ordinary shares (unfranked)	-	-

PRINCIPAL ACTIVITIES

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

- mortgage origination and management of home loans;

  and

- securitisation of mortgages through the Residential Mortgage Trust (RMT), a special purpose vehicle ("SPV") used to issue residential mortgage backed securities.

The principal activities were conducted under the brand names Homeloans Limited, Access Home Loans, Independent Mortgage Corporation Pty Ltd, Auspak Financial Services Pty Limited and FAI Home Loans. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, Challenger Mortgage Management, Origin Mortgage Management Services, ING Bank (Australia) Limited, Residential Mortgage Trust and other institutions.

OPERATING AND FINANCIAL REVIEW

Group Overview

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 9 November 2000 acquiring the assets and liabilities of IF & I Securities Pty Ltd (as trustee for the IF & I Securities Unit Trust) and Anedo Pty Limited. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

Homeloans Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

Review of operations

A review of operations of the consolidated entity during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the consolidated entity are set out in this report.

Performance Indicators

Management and the Board monitor the consolidated entity's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets. The Board, together with management, have identified key performance indicators (KPI's) that are used to monitor performance. Management monitor KPI's on a regular basis. Directors receive the KPI's for review prior to each monthly board meeting allowing all directors to actively monitor the consolidated entity's performance.

Operating Results for the Year

On a normalised basis, excluding non cash adjustments, net profit after tax for the year was $8,347,000, up 78% on the comparable prior year result of $4,678,000.

This is a strong result achieved amidst a continued challenging operating environment. Reduced lending volumes, as a result of a decline in the level of mortgage market activity, impacted net fee and commission income, which was down 15% to $10,720,000, and total revenue, which was down 17% to $100,681,000.

However, the Group has focused on a number of key areas which have made significant contributions to the improved overall result. These key areas are:

- improving operational efficiencies across the business – the Group has achieved a 16% reduction in operating expenses (excluding allowance for impairment of loans and advances);
- margin management – the Group has achieved a 42% increase in net interest income; and
- developing more effective distribution channels.

The global credit crisis, which developed during 2007, has continued to impact the mortgage lending market in Australia. The continuation of tight credit markets, together with a tightening of lending criteria across the home loan market, particularly over the second half of the year, have resulted in reduced lending volumes originated by the Group, as noted above.

DIRECTORS' REPORT (continued)

As a direct result of these impacts, the Group has recognised an impairment write-down of $3,348,000 after tax relating to goodwill for the "Origination and Management" segment.

With regards to the "Securitisation of Mortgages" segment, an improvement in margins on the loans within the RMT SPV's resulted in an improved contribution from this segment during the year. Given these improved cash flows are expected to continue into the future, the Group has recognised a further adjustment in the current year financial result. This second adjustment represents the gain on re-estimating cash flows using the original effective interest rate. The adjustment is a gain after tax of $2,167,000.

The total non-cash adjustment of $1,181,000, being a net loss after tax, results in a statutory net profit after tax for the year of $7,166,000.

The Group's warehouse facility has been extended for a further 12 months to 30 June 2010 and there are ongoing discussions with the warehouse provider in relation to future maturity of the facility. There still remains a degree of uncertainty in the current market. It should be noted that the warehouse facility is structured so that if it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

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

The Group continues to benefit from its diversified funding base for originating loans via its "Origination of Mortgages" segment. Given Homeloans has agreements with a number of funders, it has been able to continue to originate consistent and steady levels of loan volumes during what has been a very challenging year, particularly for the non-bank sector. In the year ahead the Company will continue to focus on diversifying and expanding its funding arrangements and growing its nationwide distribution capabilities. The Group has further consolidated its capital position, has significant surplus cash reserves and will continue to seek opportunities for strategic acquisitions to add value to the business.

Summarised operating results are as follows:

	2009	
	REVENUES $'000	**RESULTS $'000**
Business segments Origination and Management	36,351	(524)
Securitisation of Mortgages	70,474	13,433
Consolidated entity adjustments	(6,144)	-
Non-segment and unallocated expenses	-	(1,341)
Consolidated entity revenue and profit from operating activities before income tax expense	100,681	11,568

DIRECTORS' REPORT (continued)

Shareholder Returns
The Company is pleased to report growth in underlying (i.e. before non-cash adjustments) basic earnings per share of 81% to 8.38 cents, demonstrating the continued strong performance of the business.

	2009	2008 [1]	2007 [1]	2006 [1]	2005
Basic earning per share (cents) before non-cash adjustments	8.38	4.64	3.44	1.82	3.95
Basic earning per share (cents) after non-cash adjustments	7.20	(12.42)	3.44	1.82	3.95
Return on assets (%)	0.9%	(1.2%)	0.2%	0.1%	0.4%
Return on equity (%)	11.0%	(20.8%)	2.9%	3.4%	6.9%
Dividend payout ratio (%)	96.4%	(16.1%) [2]	97.9%	274.6% [3]	30.3%

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

1. Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy on the recognition of revenue and expenses on the origination and loan management business in the financial year ended 30 June 2007.

   Results for 2007 and 2008 have been further adjusted based upon the Group's change in accounting policy on the computation of the effective interest rate method on loan assets.

   As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit.

2. An interim dividend was paid based on a result prior to impairment losses toward the end of 2008 financial year. No final dividend was paid as a result of the statutory loss recorded of $12,511,000 in 2008.

3. It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated entity's cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2009 of $1,251,000 (2008: Increase of $40,707,000).

The consolidated entity has sufficient funds to finance its operations. The consolidated entity also has an overdraft facility of $900,000 which was unutilised at 30 June 2009, primarily to allow for timing mismatches. The consolidated entity has a cash advance facility with its bankers at 30 June 2009 of $8,429,000 (2008: $15,428,000). The Residential Mortgage Trust has a net interest margin facility of $2,423,000 (2008: $7,544,000) and a warehouse facility of $750,000,000 drawn to $516,742,000 at 30 June 2009 (2008: $649,671,000).

Operating cash flow includes cash available to the investors in the special purpose vehicles (SPV) of RMT. This cash is not available to the consolidated entity. The RMT SPV's generated positive operating cashflow of $1,111,000 during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been lower by this amount.

DIRECTORS' REPORT (continued)

Asset and capital structure

PROFILE OF DEBTS	2009 $'000	2008 $'000
The profile of the consolidated entity's debt finance is as follows:		
Lease liability - secured	-	444
HP liability - secured	-	25
Bank loans - secured	527,594	672,643
Due to bondholders	164,561	295,824
Loans from funders	3,958	2,875
	696,113	971,811

The amount of the consolidated entity's debts has decreased over the last year due to a reduction in loan balances within the RMT trusts and as a result of principal repayments commencing on the Group's cash advance facility during the year.

CAPITAL EXPENDITURE

There has been a decrease in cash used to purchase equipment for 30 June 2009 to $96,000 from $214,000 in the year ended 30 June 2008.

RISK MANAGEMENT

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

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

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

The Managing Director and Financial Controller periodically provide formal statements to the Board that in all material aspects:

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 18 August 2009, National Australia Bank (NAB) acquired the Mortgage Management division of Challenger Financial Services Group. The purchase includes the 41% stake in Homeloans Limited held by Challenger Financial Services Group. The terms of the transaction include NAB taking an immediate stake of 17.5% in Homeloans with the potential to increase this to 41% subject to Homeloans Limited shareholder approval.

On 27 August 2009, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2009 of 5.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2009 financial statements. The final dividend is payable on 28 September 2009.

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued shares

As at 30 June 2009, there were 3,697,500 (2008: 6,022,500) unissued ordinary shares under options. During the period between the reporting date and the date of completion of the financial statements, 2,107,500 shares have been issued as a result of options being exercised, leaving a balance of 1,590,000 unissued shares under options as at the date of this report.

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

No ordinary shares were issued as a result of the exercise of options during the year under review. 2,325,000 options were cancelled during the year on resignation of staff.

DIRECTORS' REPORT (continued)

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

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

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

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

REMUNERATION REPORT (AUDITED)

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

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives and general managers of the Company and the Group.

DETAILS OF KEY MANAGEMENT PERSONNEL
(including the five highest remunerated executives of the Company and the Group)

Directors

T.A.Holmes	Executive Chairman
B.D.Jones	Managing Director – resigned 30th September 2008
B.R.Benari	Director (Non-Executive)
R.P.Salmon	Director (Non-Executive)
R.N.Scott	Director (Non-Executive)
D.Stevens	Director (Non-Executive) – resigned 28th October 2008
A.L. Hall	Director (Non-Executive) – appointed 28th October 2008

Executives

L.McDonald	National Head of Underwriting
A.Carn	National Head of Sales
C.Matthews	Financial Controller
S.McWilliam	General Manager of Wholesale Funding
S.Scahill	General Manager of Products and Services

REMUNERATION PHILOSOPHY

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

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

DIRECTORS' REPORT (continued)

COMPENSATION POLICY

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

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and officers emoluments to the company's financial and operational performance.

In addition, all executives are entitled to annual bonuses payable upon the achievement of KPI's and annual corporate profitability measures, the most important being return on shareholder's equity. Details of company performance and shareholder returns are discussed on page 21 of this report.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options granted as part of their remuneration package.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the senior management team.

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

REMUNERATION STRUCTURE

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

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

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

Structure

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

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

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits on. The remuneration of non-executive directors for the period ended 30 June 2009 and 30 June 2008 is detailed in Table 1 on page 18.

DIRECTORS' REPORT (continued)

EXECUTIVE REMUNERATION

Objective

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

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

Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee will, from time to time, engage an external consultant to provide independent advice detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

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

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each senior manager by the Nomination and Remuneration Committee. Table 1 on page 18 details the variable component of the Key Management Personnel and the five highest paid executives of the Company and the Group.

FIXED REMUNERATION

Objective

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

Since 2005, the level of individual fixed remuneration to members of the senior management team has been held at a steady level.

Structure

The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the Key Management Personnel and the highest paid executives of the Company and the Group are detailed in Table 1 on page 18.

VARIABLE REMUNERATION — SHORT TERM INCENTIVE (STI)

Objective

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

Structure

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

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

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

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Nomination and Remuneration Committee. Payments are made in the following reporting period and are usually delivered as a cash bonus.

There have been no alterations to the STI bonus plans since their grant date.

STI Bonus for 2008 and 2009 financial years

For the 2008 financial year, 32% of the STI cash bonus pool of $1,000,000 as previously accrued in that period vested to executives and was paid in the 2009 financial year. The Managing Director forfeited an STI cash bonus for the 2008 financial year. The remuneration committee determined the STI payments for the 2009 financial year in August 2009. The STI cash bonus paid for the 2009 financial year is $450,000.

DIRECTORS' REPORT (continued)

VARIABLE REMUNERATION — LONG TERM INCENTIVE (LTI)

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

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

Structure
LTI grants to executives are delivered in the form of options.

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

Table 2 on page 20 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

Employment contracts
Except as outlined below, no executives are employed under a fixed term contract.

Upon termination all vested options remain in place.

MANAGING DIRECTOR

The role of Managing Director was occupied by Brian Jones up until his resignation at 30 September 2008. For the period from 1 July 2008 up until the resignation date, Mr Jones was paid a base salary.

As per his conditions of employment and upon leaving the Company, Mr Jones received 3 months pay, being the notice period, as well as his statutory entitlements to accrued annual leave. At the time of resignation, there were no STI or LTI payable to Mr Jones.

From 1 October 2008, the role of Managing Director has been occupied by the Chairman, Timothy Holmes (Executive Chairman). This appointment has been made on an interim basis until such time as a new Managing Director is appointed.

In his role as Executive Chairman, Mr Holmes is being paid the same base salary as the previous Managing Director. While acting in this role on an interim basis, Mr Holmes is not entitled to any STI or LTI, nor will he be entitled to any termination benefits.

Other senior executives
Under their conditions of employment the employment of the Key Management Personnel may be terminated by either party, by giving 1 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

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

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

DIRECTORS' REPORT (continued)

REMUNERATION OF KEY MANAGEMENT PERSONNEL AND THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP

Table 1: Remuneration for the year ended 30 June 2009 and 30 June 2008

		SHORT TERM			POST EMPLOYMENT	TERMINATION BENEFITS	LONG TERM	SHARE-BASED PAYMENT	TOTAL	% PERFORMANCE RELATED	% OPTION RELATED
		SALARY & FEES	CASH BONUS [10]	NON MONETARY BENEFITS	SUPERANNUATION		INCENTIVE PLANS	OPTIONS			
Executive Directors											
T.A.Holmes[3]	2009	266,336	-	6,106	19,038	-	-	-	291,480	0.0%	0.0%
	2008	75,000	-	4,658	-	-	-	-	79,658	0.0%	0.0%
B.D.Jones[2]	2009	90,189	-	2,047	16,355	199,184	-	-	307,775	0.0%	0.0%
	2008	350,000	300,000	5,640	31,500	-	-	3,844	690,984	43.97%	0.56%
J.L Smith [8]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	216,605	75,000	4,450	40,116	278,762	-	8,913	623,846	13.45%	1.43%
Non- executive directors											
R.P.Salmon	2009	50,000	-	6,106	-	-	-	-	56,106	0.0%	0.0%
	2008	50,000	-	4,658	-	-	-	-	54,658	0.0%	0.0%
R.N.Scott	2009	57,500	-	-	-	-	-	-	57,500	0.0%	0.0%
	2008	57,500	-	-	-	-	-	-	57,500	0.0%	0.0%
B.R.Benari [1]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	-	-	-	-	-	-	-	-	0.0%	0.0%
D.Stevens [1]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	-	-	-	-	-	-	-	-	0.0%	0.0%
A.L.Hall [1]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	-	-	-	-	-	-	-	-	0.0%	0.0%
Other Key Management Personnel											
L.McDonald	2009	163,064	80,000	8,187	14,676	-	-	-	265,927	30.08%	0.0%
	2008	150,000	46,925	5,640	13,500	-	-	1,756	217,821	22.35%	0.81%
A.Carn [4]	2009	235,000	82,500	8,187	19,800	-	-	-	345,487	23.88%	0.0%
	2008	59,038	-	1,410	4,950	-	-	-	65,398	0.0%	0.0%
C.Matthews [5]	2009	155,000	55,000	-	13,950	-	-	-	223,950	24.56%	0.0%
	2008	56,630	-	-	5,097	-	-	-	61,727	0.0%	0.0%
S.McWilliam [6]	2009	148,259	70,000	-	13,343	-	-	657	232,259	30.42%	0.28%
	2008	22,304	-	-	2,007	-	-	557	24,868	2.24%	2.24%
S.Scahill [7]	2009	150,000	45,000	-	13,500	-	-	657	209,157	21.83%	0.31%
	2008	23,364	-	-	2,103	-	-	429	25,896	1.66%	1.66%
T.Phillips [9]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	308,090	-	-	-	-	-	7,647	315,737	2.42%	2.42%
B.Hartley [9]	2009	-	-	-	-	-	-	-	-	0.0%	0.0%
	2008	109,000	29,393	-	-	-	-	-	138,393	21.24%	0.0%
Totals	2009	1,315,348	332,500	30,633	110,662	199,184	-	1,314	1,989,641		
	2008	1,477,531	451,318	26,456	99,273	278,762	-	23,146	2,356,486		

DIRECTORS' REPORT (continued)

1 Acting as a director in connection with discharging their duties as an executive of Challenger Financial Services Group ("Challenger") and consequently do not currently take fees for their service.

2 B. Jones resigned as Managing Director on 30 September 2008.

3 T. Holmes commenced as Managing Director on 1 October 2008.

4 A. Carn joined the Group as a KMP on 31 March 2008.

5 C. Matthews joined the Group as a KMP on 18 February 2008.

6 S McWilliam became a KMP on 5 May 2008 and therefore the remuneration shown in 2008 relates only to the period from this date.

7 S Scahill became a KMP on 1 May 2008 and therefore the remuneration shown in 2008 relates only to the period from this date.

8 J Smith resigned on 11 April 2008.

9 T. Phillips and B. Hartley are directors of Mortgage Asset Services Pty Ltd (MAS). The contract between Homeloans Limited and MAS expired on 31 December 2007 and was not renewed. T.Phillips' services as General Manager Sales for the consolidated entity were remunerated by way of a commission payment to MAS monthly, based on home loans settled during the previous month. This amounted to $308,090 in the 2008 financial year. This performance condition was determined to be appropriate for the General Manager Sales and specifically it addressed the requirements of his role. The terms and conditions of this commission payment were based on an increasing scale of commission as various settlement volume hurdles were exceeded.

B. Hartley's services as General Manager Product and Funding were remunerated by way of a consulting fee of $10,900 per month payable to MAS.

10. Cash bonuses shown in the current financial year include amounts paid during the current financial year in respect of performance in the financial year ended 30 June 2008, as well as bonus amounts determined in respect of performance in the current financial year which will be paid during the year ended 30 June 2010. The cash bonuses shown in the year ended 30 June 2008 were amounts paid in respect of performance in the financial year ended 30 June 2007.

DIRECTORS' REPORT (continued)

Table 2:

COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR (CONSOLIDATED)

There were no options granted in the current year that affect remuneration for the year ended 30 June 2009 (2008: no options granted). The following table summarises terms and conditions of options vested during that year.

		TERMS & CONDITIONS FOR EACH GRANT ^					
	VESTED NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
30 June 2009							
Directors							
S.McWilliam	12,500	15/02/2007	0.2196	0.56	29/12/2011	29/12/2008	29/12/2011
S.Scahill	12,500	15/02/2007	0.2196	0.56	29/12/2011	29/12/2008	29/12/2011
Total	25,000						

		TERMS & CONDITIONS FOR EACH GRANT ^					
	VESTED NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
30 June 2008							
Directors							
B.D.Jones	310,000	23/11/2005	0.1294	0.46	31/08/2010	31/08/2007	31/08/2010
J.L.A.Smith	100,000	14/01/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
	150,000	14/10/2005	0.1583	0.46	31/08/2010	31/08/2007	31/08/2010
	300,000	20/02/2006	0.1363	0.46	31/08/2010	31/08/2007	31/08/2010
Executives							
L.McDonald	50,000	14/01/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
	45,000	14/10/2005	0.1583	0.46	31/08/2010	31/08/2007	31/08/2010
S.McWilliam	25,000	14/01/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
S.Scahill	30,000	14/10/2005	0.1583	0.46	31/08/2010	31/08/2007	31/08/2010
T.Phillips/B.Hartley	250,000	07/04/2006	0.1058	0.51	07/12/2009	30/12/2007	07/12/2009
Total	1,260,000						

^ For details on the valuation of the options, including models and assumptions used, please refer to note 16.

For the year ended 30 June 2009 no options were exercised.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. No options were exercised or lapsed during the period.

2,000,000 options were cancelled during the period due to the departure of the former Managing Director.

DIRECTORS' REPORT (continued)

COMPANY PERFORMANCE AND SHAREHOLDER RETURNS

The Company is pleased to report growth in underlying (i.e. before non-cash adjustments) basic earnings per share of 81% to 8.38 cents, demonstrating the continued strong performance of the business.

	2009	2008[1]	2007[1]	2006[1]	2005
Basic (loss) earnings per share (cents) after non-cash adjustments	7.20	(12.42)	3.44	1.82	3.95
Return on assets (%)	0.9%	(1.2%)	0.2%	0.1%	0.4 %
Return on equity (%)	11.0%	(20.8%)	2.9%	3.4%	6.9 %
Dividend payout ratio (%)	96.4%	(16.1%)	97.9%	274.6%	30.3 %
Share price (cents)	55.0	48.0	56.5	10.5	0.0
Dividends (cents)	7.0	2.0	3.7	5.0	1.5

1. Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy in the financial year ended 30 June 2007.

Results for 2007 and 2008 have been further adjusted based upon the Group's change in accounting policy.

As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit.

END OF REMUNERATION REPORT

DIRECTORS' REPORT (continued)

DIRECTORS' MEETINGS

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

	DIRECTORS' MEETINGS	AUDIT COMMITTEE	NOMINATIONS AND REMUNERATION COMMITTEE
Number of meetings held:	11	3	2
Number of meetings attended:			
T. A. Holmes	11	-	-
R. P. Salmon	11	-	2
R. N. Scott	11	3	2
B. D. Jones	3	-	-
B.R. Benari	11	2	-
D. Stevens	4	1	-
A. Hall	7	1	2

COMMITTEE MEMBERSHIP

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

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

Audit
R.N. Scott (Chairman)
R.P. Salmon
B.R. Benari
D. Stevens (Resigned 28th October 2008)
A.L. Hall (Appointed 28th October 2008)

Nomination and Remuneration Committee
B.R. Benari (Chairman - resigned 26th March 2009)
A.L. Hall (Chairman - appointed 26th March 2009)
T.A. Holmes (Resigned 30th September 2008)
R.N. Scott
R.P. Salmon

ROUNDING

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

DIRECTORS' REPORT (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

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

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Executive Chairman

Perth, 24 September 2009

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Auditor's Independence Declaration to the Directors of Homeloans Limited

In relation to our audit of the financial report of Homeloans Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
24 September 2009

CORPORATE GOVERNANCE STATEMENT

The Board of Homeloans Limited is committed to maintaining the highest standards of corporate governance. Corporate governance establishes the framework for how the Board oversees the company and performs its functions on behalf of shareholders. The Board believes that good governance should be fully embedded in the company's framework and culture. This statement reflects the Company's corporate governance system as at the date of this report.

This statement reports against the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" released in August 2007. As required by the ASX Listing Rules, this statement sets out the extent to which Homeloans Limited has followed the Principles or, where appropriate, indicates a departure from them with an explanation.

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

For further information on the corporate governance policies adopted by Homeloans Limited refer to our website: http://www.homeloans.com.au/.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The role of the Board and delegations

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

- oversee the conduct of the company's business to evaluate whether the business is being properly managed and to ensure that it is conducted in an honest and ethical manner;
- ensure that adequate procedures are in place to identify the principal risks of the company's business and delegate the implementation of appropriate systems to manage these risks to Board Committees and management;
- select, appoint, evaluate the performance of, determine the remuneration of, plan for the successor of, and removal of the Managing Director;
- ensure that adequate plans and procedures are in place for succession planning, including appointing, training and monitoring the performance of senior management;
- adopt a strategic planning process and review the company's financial objectives and major corporate plans and actions; and
- perform other functions as prescribed by law, or assigned to the Board to maximise shareholder value.

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

Management responsibility

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

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

Executive performance assessment

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

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and applicable budgets.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Membership of the Board

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

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

NAME	POSITION	TERM IN OFFICE
T.A Holmes	Executive Chairman	8yrs 11 months
R.P Salmon	Non – Executive Director	8yrs 11 months
R.N Scott	Non – Executive Director	8yrs 11 months
B.R Benari	Non – Executive Director	2yrs 5 months
A.L Hall	Non – Executive Director	0yrs 11 months

The Chairman is also currently exercising the role of Managing Director and has done so since the previous Managing Director resigned on 30 September 2008. This appointment was made on an interim basis to ensure the Company maintained leadership and direction during what has been a very challenging period. The Board is continuing its search for a new Managing Director with the appropriate skills and experience.

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

Procedure for the selection and appointment of new directors:

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

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

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

During the year, Mr R.P Salmon and Mr B.R Benari retired from the Board and were re-elected at the 2008 annual general meeting. Mr B D Jones resigned from the Board on 30 September 2008 and Mr D Stevens resigned from the Board on 28 October 2008.

Mr A.L Hall was appointed to the Board on 28 October 2008.

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

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

Review of Board performance
The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

Director independence
An independent director is a non-executive director (i.e. is not a member of management) and:

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

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

The Board does not consist of a majority of independent directors. The Board of Directors is of the opinion that the company is actually benefiting from having the company's founders give of their experience in the industry and have a financial interest.

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

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

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

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

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

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

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

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

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

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

Directors and Staff Trading Policy
Directors and staff are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Company, if they are in possession of insider information. The Board has approved the Policy for Dealing in Homeloans Limited Securities which prescribes the manner in which staff can trade in the Company's shares and the procedures to open and close trading windows. A summary of the policy is available on the Company's website.

The policy applies to all directors and staff and places restrictions and reporting requirements on staff, including limited trading in the shares of the Company to specific trading windows and in a specified manner.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

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

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

The primary functions of the Audit Committee are to:

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

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

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

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

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

Independent external audit
The Company requires its independent external audit to:

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

The Company's independent external auditor is Ernst & Young (EY). External auditors are required to rotate the engagement partner assigned to the Company on a five year basis. Under this policy, the lead audit engagement partner assigned to the Company rotated at the conclusion of the 2007 financial reporting period. The Board has requested that EY attend the Company's annual general meeting, and that they be available to answer questions arising in relation to the conduct of their audit.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

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

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

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

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

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Risk management and compliance

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

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

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

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

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

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

Assurance

The CEO and CFO (or equivalent) periodically provide formal statements to the Board that in all material aspects:

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

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

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

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Board Remuneration Committee

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

- the remuneration and incentives of senior management in light of company goals and objectives;
- superannuation arrangements; and
- the remuneration framework for Directors.

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

ASX Corporate Governance Council Best Practice Recommendations

Homeloans Limited complies with the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 2 August 2007 (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2009 and at the date of this report are outlined in the Corporate Governance Statement.

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

	ASX PRINCIPLE	COMPLIANCE
Principle 1:	**Lay solid foundations for management and oversight** Companies should establish and disclose the respective roles and responsibilities of board and management.	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Comply
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply
Principle 2:	**Structure the board to add value** **Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.**	
2.1	A majority of the board should be independent directors.	Not comply
2.2	The chair should be an independent director.	Not comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Not comply
2.4	The board should establish a nomination committee.	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply
Principle 3:	**Promote ethical and responsible decision-making** **Companies should actively promote ethical and responsible decision-making.**	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	 Comply Comply Comply
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Comply
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply
Principle 4:	**Safeguard integrity in financial reporting** **Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.**	
4.1	The board should establish an audit committee.	Comply
4.2	The audit committee should be structured so that it: • consist only of non-executive directors • consist of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	 Comply Not Comply Comply Comply

ASX Corporate Governance Council Best Practice Recommendations (continued)

	ASX PRINCIPLE	COMPLIANCE
4.3	The audit committee should have a formal charter.	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply
Principle 5:	**Make timely and balanced disclosure** **Companies should promote timely and balanced disclosure of all material matters concerning the company.**	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply
Principle 6:	**Respect the rights of shareholders** **Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.**	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply
Principle 7:	**Recognise and manage risk** **Companies should establish a sound system of risk oversight and management and internal control.**	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply
Principle 8:	**Remunerate fairly and responsibly** **Companies should ensure that the level and composition of remuneration is sufficient and responsible and that its relationship to performance is clear.**	
8.1	The board should establish a remuneration committee.	Comply
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

		CONSOLIDATED		HOMELOANS LIMITED	
	NOTE	2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Interest income	4(a)	72,695	87,640	5,353	7,128
Interest expense	4(d)	(53,026)	(73,795)	(1,952)	(2,548)
Net interest income		19,669	13,845	3,401	4,580
Fees and commission income	4(b)	26,821	33,172	15,737	23,821
Fees and commission expense	4(e)	(16,101)	(20,609)	(10,224)	(15,928)
Other operating income		966	845	11,075	8,909
General administrative expenses		(7,764)	(6,528)	(7,260)	(6,754)
Employee benefits	4(g)	(9,155)	(13,473)	(8,489)	(12,607)
Other operating expenses	4(h)	(169)	(253)	(91)	(166)
Share of profit of associate		199	87	199	87
Impairment loss	4(i)	(5,993)	(13,369)	(3,551)	(14,486)
Gain/(loss) on loans and advances recognised at amortised cost	4(k)	3,095	(5,943)	-	-
Profit/(loss) before income tax		11,568	(12,226)	797	(12,544)
Income tax (expense)/benefit	5	(4,402)	(285)	(1,325)	891
Net profit/(loss) attributable to members of the Homeloans Limited		**7,166**	**(12,511)**	**(528)**	**(11,653)**
Basic earnings per share (cents per share)	6	7.20	(12.42)		
Diluted earnings per share (cents per share)	6	7.20	(12.42)		
Franked dividend at 30%	7	-	2.0		
Fully franked interim dividend at 100% (cents per share)	7	1.5	-		
Proposed fully franked final dividend at 100% (cents per share)	7	5.5	-		

The income statement is to be read in conjunction with the accompanying notes.

BALANCE SHEET AS AT 30 JUNE 2009

	NOTE	CONSOLIDATED		HOMELOANS LIMITED	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
ASSETS					
Cash and cash equivalents	8	73,851	72,600	47,168	44,402
Receivables	9	6,245	9,506	17,044	19,771
Loans and advances to customers	11	663,258	920,811	-	-
Other financial assets	12	34,023	39,251	22,344	25,140
Derivative financial assets	22	-	387	-	-
Investment in an associate	10	220	125	166	71
Plant and equipment	13	1,185	1,506	1,185	1,461
Investment in controlled entities	14	-	-	8,391	11,942
Goodwill	15	12,565	15,913	-	-
TOTAL ASSETS		**791,347**	**1,060,099**	**96,298**	**102,787**
LIABILITIES					
Payables	17	10,834	6,914	20,853	17,173
Interest-bearing liabilities	18	696,113	971,811	12,372	18,722
Other financial liabilities	19	14,146	15,339	7,095	8,112
Derivative financial liabilities	22	1,060	-	-	-
Lease incentives	20	340	421	340	421
Deferred income tax liabilities	5	3,399	5,052	1,431	1,345
Provisions	21	365	547	340	528
TOTAL LIABILITIES		**726,257**	**1,000,084**	**42,431**	**46,301**
NET ASSETS		**65,090**	**60,015**	**53,867**	**56,486**
EQUITY					
Issued capital	23	97,337	97,981	97,337	97,981
Reserves	23	816	774	816	774
Accumulated losses	23	(33,063)	(38,740)	(44,286)	(42,269)
TOTAL EQUITY		**65,090**	**60,015**	**53,867**	**56,486**

The balance sheet is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	ISSUED CAPITAL	ACCUMULATED LOSSES	OTHER RESERVES	TOTAL
	$'000	**$'000**	**$'000**	**$'000**
CONSOLIDATED				
At 1 July 2007	98,194	(23,378)	655	75,471
Loss for the year	-	(12,511)	-	(12,511)
Total income and expense for the year	-	(12,511)	-	(12,511)
Exercise of options	186	-	-	186
Share buyback	(399)	-	-	(399)
Share-based payment	-	-	119	119
Equity dividends	-	(2,851)	-	(2,851)
At 1 July 2008	**97,981**	**(38,740)**	**774**	**60,015**
Profit for the year	-	7,166	-	7,166
Total income and expense for the year	-	7,166	-	7,166
Share buyback	(644)	-	-	(644)
Share-based payment	-	-	42	42
Equity dividends	-	(1,489)	-	(1,489)
At 30 June 2009	**97,337**	**(33,063)**	**816**	**65,090**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009 (continued)

	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
PARENT				
At 1 July 2007	98,194	(27,765)	655	71,084
Profit for the year	-	(11,653)	-	(11,653)
Total income and expense for the year	-	(11,653)	-	(11,653)
Exercise of options	186	-	-	186
Share buyback	(399)	-	-	(399)
Share-based payment	-	-	119	119
Equity dividends	-	(2,851)	-	(2,851)
At 1 July 2008	**97,981**	**(42,269)**	**774**	**56,486**
Loss for the year	-	(528)	-	(528)
Total income and expense for the year	-	(528)	-	(528)
Share buyback	(644)	-	-	(644)
Share-based payment	-	-	42	42
Equity dividends	-	(1,489)	-	(1,489)
At 30 June 2009	**97,337**	**(44,286)**	**816**	**53,867**

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 2009

		CONSOLIDATED		HOMELOANS LIMITED	
	NOTE	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash flows from operating activities					
Interest received		74,944	86,359	5,353	7,128
Interest paid		(52,096)	(74,995)	(1,940)	(2,548)
Loan fees and other income		33,831	35,026	37,271	32,697
Salaries and other expenses		(33,697)	(41,016)	(28,189)	(34,006)
(Repayments of)/proceeds from warehouse facility (i)		(132,929)	281,972	-	-
(Repayments to)/proceeds from bondholders (i)		(131,263)	(146,134)	-	-
Repayments from/Net loans (advanced) from borrowers (i)		257,345	(138,637)	-	-
Income taxes paid		(1,139)	(338)	(1,139)	(338)
Net cash flows from operating activities	8	**14,996**	**2,237**	**11,356**	**2,933**
Cash flows from investing activities					
Acquisition of IMC		-	(2,570)	-	-
Acquisition of Auspak		-	(2,190)	-	(2,190)
Purchase of plant and equipment		(96)	(214)	(96)	(214)
Loan to associate		18	45	-	32
Repayments of loan by related party		-	44,680	-	44,680
Net cash flows (used in)/from investing activities		**(78)**	**39,751**	**(96)**	**42,308**
Cash flows from financing activities					
Proceeds from issue of shares		-	186	-	186
Share buy back program		(644)	(399)	(644)	(399)
Proceeds from borrowings		3,057	8,150	3,057	2,856
Repayment of borrowings		(14,591)	(6,367)	(9,418)	(1,418)
Payment of dividends	7	(1,489)	(2,851)	(1,489)	(2,851)
Net cash flows from/(used in) financing activities		**(13,667)**	**(1,281)**	**(8,494)**	**(1,626)**
Net increase/(decrease) in cash and cash equivalents		1,251	40,707	2,766	43,615
Add: Opening cash and cash equivalents brought forward		72,600	31,893	44,402	787
Closing cash and cash equivalents carried forward	8	**73,851**	**72,600**	**47,168**	**44,402**

(i) – The cash flows of the group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the consolidated entity's operating cash flows. These cash flows are not available for the use of shareholders. The RMT SPV's generated $1,111,000 during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been $13,885,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1: CORPORATE INFORMATION

The financial report of Homeloans Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of directors on 24 September 2009.

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

The nature of the operations and principal activities of the consolidated entity are described in note 3.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

(b) Statement of compliance

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

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2009 are outlined in the table below.

REF	TITLE	SUMMARY	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards.	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	The group has no qualifying assets. Therefore no impact	1 July 2009
AASB 101 (Revised) and AASB 2007-08	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassification of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

REF	TITLE	SUMMARY	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations.	The Group does not expect to enter into business combinations in the near future and as such is not expected to have any impact on the Group's financial report.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will give rise to a gain or loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (AASB 4, AASB 7, AASB 1023 & AASB 1038)	The amended IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: quoted prices in active markets for identical assets or liabilities (Level 1); inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)	The company is in the process to determine the extent of the impact of the amendments, if any.	1 July 2009
AASB 2008-5, 2008-6, 2009-4, 2009-5 and 2009-7	Further amendments to Australian Accounting Standards arising from the Annual Improvements Projects.	Amendments to some standards result in accounting changes for presentation, recognition or measurement purposes. While some amendments that relate terminology and editorial changes are expected to have no or minimal effect on accounting	The company is in the process to determine the extent of the impact of the amendments, if any.	1 July 2010

* Designates the beginning of the applicable annual reporting period unless otherwise stated

The Group has adopted relevant changes in Australian Accounting Standards and Interpretations which became applicable for period ended on 30 June 2009. The adoption of these changes did not have a material impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

(c) Basis of consolidation
The consolidated financial statements comprise the financial statements of Homeloans Limited and its subsidiaries as at 30 June each year (the consolidated entity).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

(d) Business combinations
The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Investment in associate
Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the consolidated entity has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the consolidated entity determines whether it is necessary to recognise any additional impairment loss with respect to the consolidated entity's net investment in the associate. The consolidated income statement reflects the consolidated entity's share of the results of operations of the associate.

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

(f) Leases
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Lease incentives are recognised in the income statement as an integral part of the total lease.

Finance leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or estimated useful lives of the improvements, whichever is the shorter.

(g) Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(j) Revenue recognition
Revenue is recognised 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:

<u>Origination and loan management business - Managed Loans</u>

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

- Origination commissions are recognised as revenue once the origination of the loan has been completed.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

Origination of Non-managed Loans

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

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

Securitisation of mortgages

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

(k) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

(l) Cash and cash equivalents
Cash on hand and in banks and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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

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

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

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

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

(n) De-recognition of financial instruments
The de-recognition of a financial instrument takes place when the consolidated entity 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 consolidated entity utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being controlled entities under AASB 127 – Consolidated and separate 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 balance sheet with the related interest earned and interest paid recognised through the consolidated income statement.

(o) Recoverable amount of non-financial assets
At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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.

(p) Costs of establishing a SPV

The initial set up costs of an SPV to issue residential mortgage backed securities ("RMBS") form part of transaction costs on the bond issued. These costs comprise legal fees and ratings agency fees.

(q) Recoverable amount of financial assets

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

Financial assets carried at amortised cost

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

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

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

(r) Loans and advances

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

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

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

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

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

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 Sheet 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 Income Statement.

All RMT loans are covered by Lenders Mortgage Insurance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

(s) Plant and equipment
Cost and valuation
Items of plant and equipment are measured at cost less accumulated depreciation and any impairment in value.

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

Plant and equipment – over 5 to 15 years.

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

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

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

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

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

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

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

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

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

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

(u) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less transaction costs.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

(w) Taxes

Income tax

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

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

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

(x) Goods and services tax (GST)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

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

(y) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets held for trading, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not held for trading, directly attributable transactions costs. The consolidated entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

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

Financial assets held for trading

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

Held-to-maturity investments

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

Available-for-sale investments

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

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

(z) Derivative financial instruments

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

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

(aa) Employee benefits

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

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

Employee benefits expenses and revenues arising in respect of the following categories:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Employee incentive payments are paid and/or recognised as follows:
Non-executive staff – no contractual entitlement to an incentive payment. Payments decided by the board based on observed achievements and performance. Expense is recognised on payment of the incentive.

Executive staff – contractual entitlement based on a mixture of personal performance in relation to specific KPI's and performance of the company in relation to company wide targets and/or the budget. The Group recognises an expense when the incentive payment can be quantified with some certainty.

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

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

Costs of servicing equity (other than dividends) and preference share dividends;

Dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

Other non discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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

(dd) Significant accounting judgments, estimates and assumptions

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

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

Consolidation of SPVs
The Group has decided that the RMT SPVs meet the criteria of being controlled entities under AASB 127 – Consolidated and separate financial statements. The SPVs do not meet the criteria for de-recognition of financial instruments. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the balance sheet using the effective interest method with the related interest earned and interest paid recognised through the consolidated income statement.

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

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

Impairment of goodwill
The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 15.

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

Share-based payment transactions
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial valuation model, based on assumptions in note 16.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008
Prepayment rate	Ranging from 16.80% to 56.10% depending on the age of the loans	Ranging from 18.90% to 40.80% depending on the age of the loans
Discount rate	12.0%	12.0%

A remeasurement of all assets and liabilities using the discounted cash flow valuation technique occurs periodically, usually quarterly but must be completed at each reporting date.

There are a number of parameters that affect these calculations

- Loan balance
- Prepayment rate

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

The overall increase in the prepayment rate assumptions reflects the increasing probability that customers will prepay their loans ahead of schedule based on actual experience over the past 6 to 12 months which has been driven by market influences. If changes had not been made, the net profit before tax would have increased by $235,000. It should be noted that the impact of the change in accounting estimate on the results of future financial years is not practicable.

(ee) Comparatives

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

NOTE 3: SEGMENT INFORMATION

The consolidated entity's primary segment reporting format is business segments as the consolidated entity's risks and rates of return are affected predominantly by differences in the products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Business segments

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2009 and 30 June 2008. The consolidated entity has two identifiable business segments:

- Origination and management; and
- Securitisation of mortgages

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, and then the origination and management segment continues the ongoing management of that loan after it is processed and settled.

The securitisation of mortgages segment is the consolidated entity's own funding source. Using a series of mortgage trusts, this segment packages groups of mortgages and issues bonds with rights to the principal repayments and interest received from borrowers via a securitised mortgage trust.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

YEAR ENDED 30 JUNE 2009	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	7,005	65,690	72,695
Fee and commission income	28,181	4,784	32,965
Other operating income	1,165	-	1,165
Total segment revenue	36,351	70,474	106,825
Inter-segment elimination			(6,144)
Total consolidated revenue			100,681
Result			
Segment results before impairment loss	2,824	12,983	15,807
Impairment loss	(3,348)	(2,645)	(5,993)
Gain on loans and advances recognised at amortised cost	-	3,095	3,095
Profit / (loss) before tax and finance costs	(524)	13,433	12,909
Finance costs			(1,341)
Profit / (loss) before income tax and minority interest			11,568
Income tax expense			(4,402)
Net profit for the year			7,166
Assets and liabilities			
Segment assets	105,870	685,477	791,347
Total assets			791,347
Segment liabilities	43,061	683,196	726,257
Total liabilities			726,257
Other segment information			
Capital expenditure	96	-	96
Depreciation	416	-	416
Other non-cash expenses:	68	-	68

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

YEAR ENDED 30 JUNE 2008		ORIGINATION AND MANAGEMENT	SECURITISATION OF MORTGAGES	TOTAL
		$'000	$'000	$'000
Revenue				
Interest Income		8,541	79,099	87,640
Fee and commission income		39,079	3,050	42,129
Other operating income		932	-	932
Total segment revenue		48,552	82,149	130,701
Inter-segment elimination				(8,957)
Total consolidated revenue				121,744
Result				
Segment results before impairment loss		6,278	2,991	9,269
Impairment loss		(7,500)	(5,869)	(13,369)
Gain on loans and advances recognised at amortised cost		-	(5,943)	(5,943)
Profit / (loss) before tax and finance costs		(1,222)	(8,821)	(10,043)
Finance costs				(2,183)
Profit / (loss) before income tax and minority interest				(12,226)
Income tax expense				(285)
Net profit for the year				(12,511)
Assets and liabilities				
Segment assets		105,232	954,867	1,060,099
Total assets				1,060,099
Segment liabilities		44,614	955,470	1,000,084
Total liabilities				1,000,084
Other segment information				
Capital expenditure		214	-	214
Depreciation		423	-	423
Other non-cash expenses:		166	583	749

Geographical Segments
The consolidated entity's business segments are located in Australia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 4: REVENUES AND EXPENSES

		CONSOLIDATED		HOMELOANS LIMITED	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
	Revenue				
(a)	**Interest income**				
	Interest received – other person/corporations	72,695	87,640	5,353	7,128
(b)	**Fee and commission income**				
	Mortgage origination income	8,254	12,540	4,563	11,614
	Loan management fees	18,567	20,632	11,174	12,207
(c)	**Other operating income**				
	Rental income	815	617	783	584
	Management Fees – Wholly owned controlled entities	-	-	10,119	8,118
	Other	350	315	372	294
		100,681	**121,744**	**32,364**	**39,945**
	EXPENSES				
(d)	**Interest expense**				
	Interest on bank loan	1,080	1,895	718	1,128
	Finance charges on leases	8	57	8	57
	Interest on other loans	252	231	252	231
	Interest recognised on trailer commission payable	1,805	1,664	974	1,132
	Interest payable to bondholders	13,717	25,919	-	-
	Interest payable to warehouse facility provider	36,164	44,029	-	-
		53,026	**73,795**	**1,952**	**2,548**
(e)	**Fee and commission expense**				
	Mortgage origination expense	7,728	12,730	4,820	10,582
	Loan management expense	8,373	7,879	5,404	5,346
		16,101	**20,609**	**10,224**	**15,928**
(f)	**General administrative expenses**				
(i)	**Depreciation consists of:**				
	Depreciation and amortisation of:				
	Plant and equipment	111	143	66	126
	Plant and equipment under lease	305	280	305	280
		416	**423**	**371**	**406**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

		CONSOLIDATED		HOMELOANS LIMITED	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
(ii)	Rent:	1,966	1,782	1,790	1,634
(g)	Employee benefits				
	Wages & salaries	7,967	9,770	7,328	8,990
	Workers' compensation costs	16	24	16	23
	Annual leave provision	(65)	22	(39)	-
	Long service leave provision	63	7	57	-
	Share-based payments expense	42	119	42	119
	Employee incentive payments	(239)	1,459	(239)	1,453
	Payroll tax	507	581	504	576
	Other employee costs	864	1,491	820	1,446
		9,155	13,473	8,489	12,607
(h)	Other operating expenses	169	253	91	166
(i)	Impairment – Goodwill [i]	3,348	13,029	-	-
-	Impairment – investments in controlled entities [ii]	-	-	3,551	9,445
	Impairment – receivable from controlled entities [ii]	-	-	-	5,041
	Impairment – loans and advances [iii]	2,645	340	-	-
		5,993	13,369	3,551	14,486
(j)	(Loss)/gain on derivative financial asset classified as held for trading	(1,447)	243	-	-
(k)	Gain/(loss) on loans and advances recognised at amortised cost [iv]	3,095	(5,943)	-	-

[i] Impairment – Goodwill

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

- Origination and Management;
- Securitisation of Mortgages.

As a result of a continued challenging operating environment, in particular tight credit markets and reduced lending volumes from a softer mortgage market, management has recognised a goodwill impairment for the Origination and Management segment of $3,348,000 (2008:$7,500,000) and the Securitisation of Mortgages segment of $nil (2008:$5,529,000).

[ii] Impairment – investments in and receivables from controlled entities

Included in the balance sheet of the parent entity are investments in and receivables from controlled entities. As a result of the impact that the credit crisis has continued to have on the home loan market and the resultant reduction in lending volumes and future cash flows originated by the controlled entities during the year, management has made write downs to these balances of $3,551,000 (2008: $14,486,000) which relates to the mortgage origination and management business. Upon consolidation, this write down is eliminated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

[iii] Impairment – loans and advances

An allowance for impairment is maintained against the mortgage loan receivables within the RMT Special Purpose Vehicles. The impairment loss recognised for the year of $2,645,000 (2008: $340,000) is measured as the difference between the carrying amount of the loan and the value of expected future cash flows, adjusted for insurance recoveries.

[iv] Gain /(loss) on loans and advances recognised at amortised cost

The gain of $3,095,000 in loans and advances recognised at amortised cost reflects a re-estimation of cash flows to be generated from the loans within the RMT SPV's using the original effective interest rate.

NOTE 5: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	6,055	1,002	1,239	(73)
Adjustments in respect of current income tax of previous years	-	-	-	-
Deferred income tax				
Relating to origination and reversal of temporary differences	(1,653)	(717)	86	(818)
Income tax expenses/(credit) reported in the income statement	4,402	285	1,325	(891)
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the consolidated entity's applicable income tax rate is as follows:				
Accounting profit before income tax	11,568	(12,226)	797	(12,544)
At the consolidated entity's statutory income tax rate of 30% (2008: 30%)	3,470	(3,668)	239	(3,763)
Entertainment expenses	11	20	8	18
Share option expense	13	36	13	36
Impairment write down	1,004	3,909	1,065	2,834
Difference in prior year tax (paid during the year)	(75)	-	-	-
Other	(21)	(12)	-	(16)
Income tax expense/(credit) reported in the consolidated income statement	4,402	285	1,325	(891)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

	BALANCE SHEET		INCOME STATEMENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Deferred tax income				
Deferred income tax at 30 June related to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Effective interest adjustments on loans and advances	(339)	-	339	(1,495)
Derivative instrument	-	(116)	(116)	73
Lease incentives	(27)	(40)	(13)	(14)
Prepayments	-	(8)	(8)	(33)
Leased assets	(106)	(198)	(92)	(84)
Accrued income	(65)	(210)	(145)	(306)
Trailing commissions receivable	(10,203)	(11,735)	(1,532)	(74)
Deferred income tax liabilities	(10,740)	(12,307)		
Deferred tax assets				
Losses available for offset against future taxable income	991	1,394	403	950
Accrued expenses	439	648	209	(266)
Effective interest adjustments on loans and advances	67	-	(67)	273
Allowance for impairment losses – loans and advances to customers	864	-	(864)	-
Derivative instrument	318	-	(318)	-
Lease incentives	102	126	24	25
Finance leases	-	133	133	96
Provisions	226	255	29	(7)
Capital items	67	97	30	(17)
Trailing commissions payable	4,267	4,602	335	162
Deferred income tax assets	7,341	7,255		
Net deferred income tax liabilities	(3,399)	(5,052)		
Deferred tax expense/(credit)			(1,653)	(717)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

	BALANCE SHEET		INCOME STATEMENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
PARENT				
Deferred tax liabilities				
NPV future trailing commissions receivable	(6,699)	(7,502)	(803)	(86)
Lease incentives	(27)	(40)	(13)	(14)
Prepayments	-	(8)	(8)	(32)
Leased assets	(106)	(198)	(92)	(84)
Accrued income	(65)	(166)	(101)	(259)
Deferred income tax liabilities	(6,897)	(7,914)		
Deferred tax assets				
Losses available for offset against future profits	991	1,394	403	950
NPV future trailing commissions payable	2,152	2,434	282	397
Accrued expenses	428	636	208	(281)
Lease incentives	102	126	24	25
Provisions	1,726	1,749	23	(1,513)
Capital items	67	97	30	(17)
Finance leases	-	133	133	96
Deferred income tax assets	5,466	6,569		
Net deferred income tax assets/(liabilities)	(1,431)	(1,345)		
Deferred tax expense/(credit)			86	(818)

TAX CONSOLIDATION

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

TAX EFFECT ACCOUNTING BY MEMBERS OF THE TAX CONSOLIDATED GROUP

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

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

Nature of the tax funding agreement

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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	
	2009	**2008**
	$'000	**$'000**
Total increase to tax payable to Homeloans Limited	4,806	689
Total increase to intercompany assets of Homeloans Limited	4,806	689

NOTE 6: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

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

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

	CONSOLIDATED	
	2009	**2008**
	$'000	**$'000**
Net (loss)/profit attributable to ordinary equity holders of the parent	7,166	(12,511)
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	7,166	(12,511)
Weighted average number of ordinary shares (excluding reserved shares) for basic and diluted earnings per share	99,587	100,762

There is no impact from 3,697,500 options outstanding at 30 June 2009 on the earnings per share calculation because they are anti-dilutive for the current year.

During the period between the reporting date and the date of completion of the financial statements, 2,107,500 shares have been issued as a result of options being exercised. There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 7: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Declared and paid during the year:				
Franked dividends:				
Final dividend on ordinary shares for 2008 - nil cents per share (2007 – 1.2 cents)	-	831	-	831
30% franked interim dividend on ordinary shares for 2009 - nil cents per share (2008: 2.0 cents)	-	2,020	-	2,020
100% fully franked interim dividend on ordinary shares for 2009 – 1.5 cents per share (2008: nil cents)	1,489	-	1,489	-
	1,489	2,851	1,489	2,851
Proposed and not recognised				
Dividends on ordinary shares:				
Final franked dividend for 2009 – 5.5 cents (2008: nil cents)	5,417	-	5,417	-

FRANKING CREDIT BALANCE

	HOMELOANS LIMITED	
	2009	2008
	$'000	$'000
The amount of the franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2008: 30%)	620	251
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	5,898	982
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
	6,518	1,233
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(2,322)	-
	4,196	1,233

The tax rate at which dividends have been franked is 30% (2008: 30%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Reconciliation to Cash Flow Statement				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at bank and in hand	11,284	1,482	10,283	993
Commercial Paper	36,885	43,409	36,885	43,409
RMT Cash Collections Account *	19,349	27,209	-	-
Restricted Cash **	6,333	500	-	-
	73,851	72,600	47,168	44,402

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

Commercial Paper represents paper purchased through Westpac Institutional Bank. The face value of the paper as at 30 June 2009 was $37,000,000 (2008: $44,000,000).

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

** Cash held in trust as collateral for the borrowing facilities with Westpac Institutional Bank.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Reconciliation of net profit after tax to net cash flows from operations				
Net profit/(loss)	7,166	(12,511)	(528)	(11,653)
Adjustments for:				
Impairment loss	5,993	19,312	3,551	9,445
Depreciation	416	423	373	406
Amortisation of SPV establishment costs	-	583	-	-
Amortisation of prepaid royalties & commissions	26	47	26	47
Share options expensed	42	119	42	119
Dividends received from associates	44	-	44	-
Share of profit in associate	(139)	(87)	(139)	(87)
Changes in assets and liabilities:				
(Increase)/decrease in receivables	2,117	(6,376)	1,684	2,226
Decrease/(increase) in derivative financial liabilities/assets	1,447	(243)	-	-
Decrease/ (increase) in due to borrowers	254,908	(132,294)	-	-
(Decrease)/increase in due to bondholders	(131,263)	(146,134)	-	-
(Decrease)/increase in due to warehouse facility	(132,929)	281,972	-	-
Increase/(decrease) in deferred tax liabilities	(1,653)	(622)	86	(818)
Increase/(decrease) in current tax liability	4,916	685	4,915	685
Increase/(decrease) in trade and other payables	4,087	(2,995)	1,490	2,215
(Decrease)/increase in provisions	(182)	358	(188)	348
Net cash from operating activities	14,996	2,237	11,356	2,933
Disclosure of financing facilities				
Refer to note 18.				
Disclosure of non-cash financing and investing activities				
The only non-cash financing activities are share-based payments as discussed in note 16.				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 9: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Fees receivables				
Non-related parties (i)	2,249	2,712	1,414	2,012
Related parties (ii) - wholly owned controlled entity	-	-	15,167	16,982
	2,249	2,712	16,581	18,994
Accrued interest (iii)	1,685	3,177	15	15
Prepayments (iv)	865	369	356	370
Last days collections receivable (v)	1,332	2,758	-	-
Other	114	490	92	392
	6,245	9,506	17,044	19,771

Terms and conditions relating to the above financial instruments

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

(ii) Details of the terms and conditions of related party receivables are set out in note 26. The amount in the prior year was recorded net of an impairment allowance of $5,041,000. No impairment was recognised in the current financial year. The balance is considered fully collectible.

(iii) Accrued interest is due and payable within 30 days.

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

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

Except for the related party receivables, other balances are neither past due nor impaired. The amount is considered fully collectible. Refer to note 24 for fair value.

NOTE 10: INVESTMENT IN ASSOCIATE

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Investment in National Mortgage Brokers Pty Limited (i)	220	125	166	71
	220	125	166	71

(i)The Group has a 26.5% (2008:26.5%) interest in National Mortgage Brokers Pty Limited ("nMB"). nMB was incorporated in Australia and its principal activity is mortgage origination.

Carrying amount at the beginning of the financial year	125	10	71	10
Acquisition of Auspak	-	54	-	-
Share of associates net profit	139	61	139	61
Dividends received by the Group	(44)	-	(44)	-
Carrying amount at the end of the financial year	220	125	166	71

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 11: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Gross loans and advances to customers	666,136	921,151		
Less: Allowance for impairment loss	(2,878)	(340)		
	663,258	920,811		

Loans and advances to customers represent lending for residential mortgages at either fixed or floating rates. In the table below, calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions based on actual experience.

EXPECTED MATURITY ANALYSIS	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Less than 1 year	222,561	270,958	-	-
1 - 2 years	148,133	189,807	-	-
2 - 3 years	98,620	133,456	-	-
3 - 4 years	65,673	94,162	-	-
4 - 5 years	43,744	66,652	-	-
> 5 years	87,405	166,116	-	-
TOTAL	**666,136**	**921,151**	**-**	**-**

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances is as follows;

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Allowance for impairment loss - opening	340	-	-	-
New and increased impairment charges	2,645	340	-	-
Amounts written off	(107)	-	-	-
Allowance for impairment loss - closing	2,878	340	-	-
Collective allowance	1,980	340	-	-
Specified allowance	898	-	-	-
	2,878	340	-	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

The following table provides analysis of loans past due but not considered impaired:

LOANS PAST DUE BUT NOT IMPAIRED	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
0 - 1 month	30,864	45,837	-	-
1 - 3 months	7,677	19,453	-	-
3 - 6 months	4,424	8,921	-	-
> 6 months	10,591	4,110	-	-
TOTAL	**53,556**	**78,321**	**-**	**-**

Payment terms of these loans have not been re-negotiated however credit has been stopped until payment is made. The Company has been in direct contact with relevant borrowers. It should be noted that all RMT loans are secured by a first ranking mortgage over the residential property and are covered 100% by Lenders Mortgage Insurance (LMI). Expected recoverable amounts are adjusted to reflect lower than 100% LMI recovery due to operational risks and are also reduced by the amount of higher rate (penalty) interest and fees related to loans in arrears which are not covered by LMI.

The following table summarises loans past due and impaired. The impairment loss, which has been determined based on an individual assessment of impaired loans, represents the carrying amount of the loans net of the value of future cash flows, adjusted for insurance recoveries (referred to in the table as "Expected recoverable amount"). The assessment of expected future cash flows includes such considerations as the specific circumstances of the borrower, the realisable value of security and expected insurance recoveries.

LOANS PAST DUE AND IMPAIRED	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Carrying amount of impaired loans	1,023	-	-	-
Less: Expected recoverable amount	(125)	-	-	-
Impairment loss	**898**	**-**	**-**	**-**

There were no restructured loans during the year. Refer to note 24 for fair value disclosure for loans and advances to customers.

Collateral repossessed
As of 30 June 2009, the Group had 31 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 loans. The estimated value of the property is between $9,000,000 and $10,000,000.

NOTE 12: OTHER FINANCIAL ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Future trailing commissions receivable (i)				
- Current	6,291	16,606	4,615	11,197
- Non-current	27,642	22,510	17,639	13,808
	33,933	39,116	22,254	25,005
Other	90	135	90	135
	34,023	39,251	22,344	25,140

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Terms and conditions relating to the above financial instruments

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

NOTE 13: PLANT AND EQUIPMENT

	CONSOLIDATED	HOMELOANS LIMITED
	PLANT AND EQUIPMENT	PLANT AND EQUIPMENT
	$'000	$'000
Year ended 30 June 2009		
At 1 July 2008, net of accumulated depreciation and impairment	1,506	1,461
Additions	95	95
Depreciation charge for the year	(416)	(371)
At 30 June 2009, net of accumulated depreciation and impairment	1,185	1,185
At 30 June 2009		
Cost or fair value	5,832	5,832
Accumulated depreciation and impairment	(4,647)	(4,647)
Net carrying amount	1,185	1,185
Year ended 30 June 2008		
At 1 July 2007, net of accumulated depreciation and impairment	1,711	1,653
Additions	218	214
Depreciation charge for the year	(423)	(406)
At 30 June 2008, net of accumulated depreciation and impairment	1,506	1,461
At 30 June 2008		
Cost or fair value	5,797	5,736
Accumulated depreciation and impairment	(4,291)	(4,275)
Net carrying amount	1,506	1,461

The useful life of the assets was estimated as follows both for 2008 and 2009:

Plant and equipment 5 to 15 years

A first mortgage was granted over all plant and equipment as security over bank loans. The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The first mortgage holder also requires all assets to be fully insured at all times.

The carrying value of plant and equipment held under finance leases at 30 June 2009 is $Nil (2008: $661,000). Additions during the year include $Nil (2008: $Nil) of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 14: INVESTMENTS IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Investments at cost in controlled entities (Note 26)	-	-	21,387	21,387
Impairment allowance (Note 4(i))	-	-	(12,996)	(9,445)
	-	-	8,391	11,942

NOTE 15: GOODWILL

	CONSOLIDATED	HOMELOANS LIMITED
	$'000	$'000
Year ended 30 June 2009		
At 1 July 2008, net of impairment	15,913	-
Less: Impairment loss	(3,348)	-
At 30 June 2009, net of impairment	12,565	-
At 30 June 2009		
Cost (gross carrying amount)	28,942	-
Less: Impairment loss	(16,377)	-
Net carrying amount	12,565	-
Year ended 30 June 2008		
At 1 July 2007, net of impairment	26,907	-
Add: Adjustment on the goodwill of the business of Independent Mortgage Corporation Pty Ltd	248	-
Add: Arising on acquisition of the business of Auspak Financial Services Pty Ltd	1,787	-
Less: Impairment loss	(13,029)	-
At 30 June 2008, net of impairment	15,913	-
At 30 June 2008		
Cost (gross carrying amount)	28,942	-
Less: Impairment loss	(13,029)	-
Net carrying amount	15,913	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

- Origination and Management
- Securitisation of Mortgages

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

The assumed growth rate in settled loans over the period covered by the forecast is 10% (2008: average of 12%). The projected growth rate used reflects long term market averages. Loan repayment rates range from 22% to 45% depending on types of loans and lenders (2008: 24% to 32%), and are based on actual experience. A terminal value of 8 times (2008: 8 times) was used for cash flows beyond 10 years reflecting industry averages.

The discount rate applied to cash flow projections is 12.5% (2008: 12.5%) and is based on average discount rates for comparable businesses in the industry.

Securitisation of Mortgages
The total amount of goodwill allocated to the Securitisation of Mortgages Cash Generating Unit was written down to zero as at 30 June 2008.

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

	CONSOLIDATED					
	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		TOTAL	
	2009	2008	2009	2008	2009	2008
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount of goodwill	12,565	15,913	-	-	12,565	15,913

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") for 30 June 2009 and 30 June 2008

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

- Inflation – constant 3% per annum (2008: 3%)
- 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 and is based on key business drivers.
- A degree of reduction in the level of commission rates earned and paid as a result of market and competition driven influences.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

SENSITIVITY TO CHANGES IN ASSUMPTIONS

Origination and Management

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is in line with 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 9%, would cause the recoverable amount of the unit to fall short of its carrying value by approximately $5,100,000. However, management is confident the growth rates will be achieved due to expected strong levels of growth in the home loan market following market recovery, together with the fact the business segment will be growing lending volumes from a lower base.

NOTE 16: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan exists where eligible employees of the consolidated entity, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently 16 members of this plan of whom 14 are current employees.

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

	2009		2008	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	6,022,500	0.43	6,912,500	0.38
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Cancelled during the year	(2,325,000)	-	(465,000)	0.46
Exercised during the year	-	-	(425,000)	0.40
Outstanding at the end of the year	3,697,500	0.46	6,022,500	0.43
Exercisable at the end of the year	3,447,500	0.47	5,422,500	0.40

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Options held at the beginning of the reporting period:
The following table summarises information about options held by employees and other related parties as at 1 July 2008:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
375,000	1 December 2004	1 December 2004	1 December 2009	0.40	0.34
500,000	1 December 2004	1 June 2005	1 December 2009	0.45	0.34
500,000	1 December 2004	1 June 2006	1 December 2009	0.50	0.34
750,000	7 December 2004	7 December 2004	7 December 2009	0.40	0.35
262,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
375,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
290,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
495,000	14 October 2005	31 August 2007	31 August 2010	0.46	0.45
315,000	23 November 2005	31 August 2006	31 August 2009	0.36	0.40
310,000	23 November 2005	31 August 2007	31 August 2010	0.46	0.40
200,000	20 February 2006	31 August 2006	31 August 2009	0.36	0.42
300,000	20 February 2006	31 August 2007	31 August 2010	0.46	0.42
250,000	7 April 2006	30 September 2006 [A]	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007 [B]	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 [C]	7 December 2009	0.51	0.40
300,000	15 February 2007	29 December 2008	29 December 2011	0.56	0.64
300,000	15 February 2007	29 December 2009	29 December 2011	0.56	0.64
6,022,500				0.43	0.49

^^ Average share price on the date of grant.

A only exercisable if average mortgage settlements in any three (3) month prior period to 30 September 2006 exceeds $100 million per month

B only exercisable if average mortgage settlements in any three (3) month prior period to 31 March 2007 exceeds $112.5 million per month

C only exercisable if average mortgage settlements in any three (3) month prior period to 31 December 2007 exceeds $137.5 million per month

Options granted:
No options were granted by Homeloans Limited during the year ended 30 June 2009. (2008:nil)

Options exercised:
The following table summarises information about options exercised by option holders during the year:

DATE	NUMBER OF OPTIONS	RANGE OF EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE AT GRANT $	WEIGHTED AVERAGE SHARE PRICE AT EXERCISE $
30 June 2009	-	-	-	-
30 June 2008	425,000	$0.35 to $0.52	$0.48	$0.59

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Options held as at the end of the year:
The following table summarises information about options held by employees and other related parties as at 30 June 2009:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
750,000	7 December 2004	7 December 2004	7 December 2009	0.40	0.35
237,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
350,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
220,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
390,000	14 October 2005	31 August 2007	31 August 2010	0.46	0.45
200,000	20 February 2006	31 August 2006	31 August 2009	0.36	0.42
300,000	20 February 2006	31 August 2007	31 August 2010	0.46	0.42
250,000	7 April 2006	30 September 2006 [A]	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007 [B]	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 [C]	7 December 2009	0.51	0.40
250,000	15 February 2007	29 December 2008	29 December 2011	0.56	0.64
250,000	15 February 2007	29 December 2009	29 December 2011	0.56	0.64
3,697,500				0.46	0.51

^^ Average share price on the date of grant.

A only exercisable if average mortgage settlements in any three (3) month prior period to 30 September 2006 exceeds $100 million per month

B only exercisable if average mortgage settlements in any three (3) month prior period to 31 March 2007 exceeds $112.5 million per month

C only exercisable if average mortgage settlements in any three (3) month prior period to 31 December 2007 exceeds $137.5 million per month

Superannuation Commitments
Employees and the employer contribute to a number of complying accumulation funds at varying percentages of salaries and wages. The consolidated entity's contributions of up to 9% of employees' wages and salaries are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 17: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Trade payables (i)	248	947	250	929
Payable to related parties:				
Wholly-owned consolidated entity				
- controlled entity (ii)	-	-	11,930	11,666
Accrued commissions (iii)	500	586	500	585
Sundry creditors and accruals (iv)	2,780	3,006	2,275	3,011
Current income tax payable	5,898	982	5,898	982
Interest payable (v)	1,408	1,393	-	-
	10,834	6,914	20,853	17,173

Terms and conditions relating to the above financial instruments:

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

(ii) Details of the terms and conditions of related party payables are set out in note 26.

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

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

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

Refer to note 24 for fair value disclosure.

NOTE 18: INTEREST-BEARING LIABILITIES

	MATURITY	CONSOLIDATED		HOMELOANS LIMITED	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Bank loans					
Secured bank loans (ii)	02/03/2010	8,429	15,428	8,429	15,428
Net interest margin (iii)	30/06/2010	2,423	7,544	-	-
Warehouse facility (iv)	30/06/2010	516,742	649,671	-	-
Non-bank loans					
Obligations under finance leases and hire purchase contracts	Matured during 2009	-	469	-	469
Bonds (v)	2035 - 2040	164,561	295,824	-	-
Loans from funders (vi)	2009 - 2014	3,958	2,875	3,943	2,825
		696,113	971,811	12,372	18,722

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Terms and conditions relating to the above financial instruments:

(i) The Company has a bank overdraft which is not utilised at year end. The bank overdraft is repayable on demand. Interest is charged at the bank's floating rate. The overdraft is secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities.

(ii) Secured bank loans incur interest at the bank bill rate plus a margin. The bank loans are secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities. Interest is recognised at an effective rate of 6.08% (2008: 8.11%). There were two amendments to the terms and conditions of the secured bank loan during the year. Firstly, the company agreed to commence monthly principal repayments of $500,000 from November 2008 (in addition to this, the company made a one-off principal repayment of $3,000,000 in October 2008). The second amendment requires a minimum balance of $5,000,000 to be maintained across the Group's bank accounts.

(iii) The net interest margin facility incurs interest at the bank bill rate plus a margin. The facility, which is provided by Westpac Banking Corporation ("WBC"), is secured by specified cash flows from the assets of the Residential Mortgage Trusts and is guaranteed by the Company. Interest is recognised at an effective rate 6.96% (2008: 8.72%). This facility is no longer utilised and is being paid down from cashflows within the RMT SPV's. The Company expects the outstanding balance to be repaid during the second half of the next financial year.

(iv) 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 5.86% (2008: 7.75%). All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurers must be rated at least A+ by Standard & Poor's and A1 by Moody's (see below regarding amended terms for warehouse extension). The RMT Warehouse facility is a rolling 12 month facility provided by WBC. WBC also act as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT trusts. FAI First Mortgage Pty Ltd ("FAIFM") is the Trust Manager and Servicer to all RMT trusts. FAIFM outsource these services to Bendigo and Adelaide Bank Limited. Both are rated "Strong" by Standard and Poor's. Perpetual Trustees Limited is the Trustee to all RMT trusts.

The following amendments were made to the terms and conditions of the warehouse during the year: (1) a minimum of $1,000,000 in cash reserves to be held within the warehouse trust (previous requirement was $500,000); (2) a second layer of cash collateral of $1,500,000 to be maintained as support for specific pools of loans within the warehouse trust – this second layer of collateral will be released back to the Company as the balance of these specific pools of loans reduces below specified thresholds; (3) in the event of the total balance of loans greater than 30 days past due exceeding 3.50% of the total balance of loans in the warehouse, the Company will be required to contribute collateral support equating to 50% of the balance of loans greater than 30 days past due over and above the 3.50% level – the collateral contributed here will be released back to the Company as the balance of loans greater than 30 days past due reduces below the 3.50% threshold; (4) in the event of the total balance of low documentation loans greater than 30 days past due exceeding 3.00% of the total balance of low documentation loans in the warehouse, the Company will be required to contribute collateral support equating to 25% of the balance of low documentation loans greater than 30 days past due over and above the 3.00% level – the collateral contributed here will be released back to the Company as the balance of low documentation loans greater than 30 days past due reduces below the 3.00% threshold.

The RMT warehouse has been extended for a further 12 months to 30 June 2010. The terms of the extension, which is effective 1 July 2009, included an increase in the funding margin payable to the warehouse provider and a reduction in the warehouse limit in line with the balance of loans in the warehouse until the limit reaches $500,000,000 (previous limit was $750,000,000). The terms were also amended to require the long term rating of the mortgage insurers in respect of the loans in the warehouse to be at least A+ by Standard & Poor's and A1 by Moody's. In the event the ratings are downgraded below these levels, Homeloans has a reasonable period of time to agree a satisfactory arrangement with the warehouse provider.

(v) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. Interest is recognised at an effective rate 5.07% (2008: 7.42%).

(vi) Some of the funders used by the company and its controlled entities provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then paid back via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The company recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 5.84% (2008: 7.53%).

Fair value disclosures
Details of the fair value of the consolidated entity's interest bearing liabilities are set out in note 24.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Financing facilities available

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
Total Facilities				
- bank overdraft	900	900	900	900
- cash advance and net interest margin facilities	10,852	22,972	8,429	15,428
- RMT warehouse facility (refer note 18 (iv))	750,000	750,000	-	-
	761,752	773,872	9,329	16,328
Facilities used at reporting date				
- bank overdraft	-	-	-	-
- cash advance and net interest margin facilities	10,852	22,972	8,429	15,428
- RMT warehouse facility (refer note 18 (iv))	516,742	649,671	-	-
	527,594	672,643	8,429	15,428
Facilities unused at reporting date				
- bank overdraft	900	900	900	900
- cash advance and net interest margin facilities	-	-	-	-
- RMT warehouse facility (refer note 18 (iv))	233,258	100,329	-	-
	234,158	101,229	900	900

Assets pledged as security

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	**2008**	**2009**	**2008**
	$'000	**$'000**	**$'000**	**$'000**
ASSETS				
First mortgage				
Plant and equipment	1,185	1,506	1,185	1,461
Loans and advances to customers	663,258	920,811	-	-
Floating charge				
Cash assets	73,851	72,600	47,168	44,402
Receivables	6,245	9,506	17,044	19,771
Investment in associate	220	125	166	71
Other financial assets	34,023	39,251	22,344	25,140
Total assets pledged as security	778,782	1,043,799	87,907	90,845

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 19: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Future trailing commissions payable (i)	14,146	15,339	7,095	8,112
	14,146	15,339	7,095	8,112

Terms and conditions relating to the above financial instruments:

(i) Fair value of future trailing commission payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing commissions payable to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trailing commission payable is measured at amortised cost.

Refer to note 24 for fair value disclosure.

NOTE 20: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Lease incentives	340	421	340	421

Terms and conditions relating to the lease incentive

(i) Net rental incentives were received or are receivable in the form of an upfront cash incentive and rent-free periods by the consolidated entity for entering into a non-cancellable operating lease for premises occupied by the parent entity. This was entered into in September 2003 in respect of the Head Office of the parent entity.

The lease term for the Head office premises is 10 years. The value of these incentives has been deferred and amortised against occupancy costs over the lease term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 21: PROVISIONS

	RESTRUCTURING PROVISION	PROVISION FOR EMPLOYEE BENEFITS	TOTAL
	$'000	$'000	$'000
CONSOLIDATED			
At 1 July 2008	360	187	547
Arising during the year			
- Long Service Leave	-	63	63
- Restructuring Provision [1]	(245)	-	(245)
At 30 June 2009	**115**	**250**	**365**
PARENT			
At 1 July 2008	360	168	528
Arising during the year			
- Long Service Leave	-	57	57
- Restructuring Provision [1]	(245)	-	(245)
At 30 June 2009	**115**	**225**	**340**

1 Restructuring Provision includes provisions for corporate entity restructuring and employee termination benefits. The restructuring is expected to be completed within the next year.

NOTE 22: DERIVATIVE FINANCIAL ASSET AND LIABILITY

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Derivative financial liability held for trading (i)	(1,060)	-	-	-

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Derivative financial asset held for trading (i)	-	387	-	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

The table below sets out the effective exposure values of the derivatives underlying assets, which provides an indication of the Group's exposure to derivatives. The fair value of ($1,060,000) (2008: $387,000) gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives as that is dependent upon the applicable market interest rate at the time of settlement.

NOTIONAL PRINCIPAL AMOUNT	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Less than 1 year	4,681	3,814	-	-
1 – 2 years	5,767	3,874	-	-
2 – 3 years	3,172	6,351	-	-
3 – 4 years	7,070	3,009	-	-
4 - 5 years	282	7,036	-	-
Total	20,972	24,084	-	-

The Group does not apply hedge accounting. All derivatives are designated as financial instruments – held for trading.
Total expense recognised from the movement in fair value for the financial year is $1,447,343 (2008: income of $242,748).

Refer to note 24 for fair value disclosure.

NOTE 23: CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Ordinary shares issued and fully paid	97,337	97,981	97,337	97,981
	97,337	97,981	97,337	97,981

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

	CONSOLIDATED		HOMELOANS LIMITED	
	THOUSANDS	$'000	THOUSANDS	$'000
Movement in ordinary shares on issue				
At 30 June 2008	100,367	97,981	100,367	97,981
Issued during the year				
- share buy back program (i)	(1,862)	(644)	(1,862)	(644)
At 30 June 2009	**98,505**	**97,337**	**98,505**	**97,337**

(i) 644,000 shares were bought back during the year under the existing share buy back program.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Share options

There were no options over ordinary shares granted during the financial year (2008: Nil). At the end of the year there were 3,697,000 unissued ordinary shares in respect of which options were outstanding (2008: 6,022,500 options). For more information refer to Note 16.

Capital Management Plan

The Group's capital comprises share capital, reserves less accumulated losses amounting to $65,090,000 at 30 June 2009 (2008: $60,015,000). The primary objectives of the Group's capital management are to ensure that the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest costs of capital available to the Group.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities. During the year the Company bought back 1,862,000 shares under its current Share Buy Back Program for a total consideration of $644,000. The maximum buyback amount under the current program is $1,000,000. The program, which is continually reviewed by the Board, is part of the long term capital management strategy aimed at maximising shareholder value.

The Group also reports regularly on its performance against various measures that are stipulated in loan covenants. One of these measures is around the level of gearing. The Group complied with all loan covenants during the financial year.

The Company is also subject to an externally imposed capital requirement by the Australian Securities & Investments Commission (ASIC). In accordance with Condition 5 of the Company's Australian Financial Services Licence, it must (a) be able to pay all its debts as and when they become due and payable; (b) have total assets that exceed total liabilities; (c) have no reason to suspect that its total assets would not exceed its total liabilities; and (d) demonstrate, based on cashflow projections, that it will have access to sufficient financial resources to meet its short term liabilities. The Company complied with this requirement for both the year ended 30 June 2009 and the year ended 30 June 2008.

Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance 30 June	(38,740)	(23,378)	(42,269)	(27,765)
Balance 1 July	(38,740)	(23,378)	(42,269)	(27,765)
Net profit for the year	7,166	(12,511)	(528)	(11,653)
Dividends	(1,489)	(2,851)	(1,489)	(2,851)
Balance 30 June	(33,063)	(38,740)	(44,286)	(42,269)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Employee Option Reserve
Movements in the employee option reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Balance 1 July	774	655	774	655
Charge for the period	42	119	42	119
Balance 30 June	**816**	**774**	**816**	**774**

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

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its financial assets and liabilities comprising cash and cash equivalents, loans and advances, receivables, payables, interest bearing liabilities and fixed to floating interest rate swaps, which arise directly from its operations. The main risks arising from the consolidated entity's financial instruments are credit risk, liquidity risk, interest rate risk and prepayment risk. The consolidated entity 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 target whilst protecting future financial security.

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

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

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

Credit risk exposures
Credit risk is the risk that the group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The group has established lending policies and procedures to manage the credit risk inherent in lending. The dominant lending focus has been in the housing market where standard lending practice is that the borrowing facilities for each client is mortgaged secured against residential property and via lenders mortgage insurance. In addition, loan balances are monitored with the result that the Group's exposure to bad debts is monitored and managed. Refer to note 11 for an ageing analysis of the loans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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 principles are adhered to:

- Independence from risk originators;
- Recognition of the different risks in the various Group businesses;
- Credit exposures are systematically controlled and monitored;
- Credit exposures are regularly reviewed in accordance with existing credit procedures; and
- Credit exposures include such exposures arising from derivative transactions.

Each of the divisions is responsible for managing credit risks that arise in their own areas with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk of the Group is monitored.

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount, net of any allowance for doubtful debts, of those assets as indicated in the balance sheet.

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
ASSETS				
Cash assets	73,851	72,600	47,168	44,402
Receivables	6,245	9,506	17,044	19,771
Loans and advances to customers *	663,258	920,811	-	-
Other financial assets	34,023	39,251	22,344	25,140
Total	**777,377**	**1,042,168**	**86,556**	**89,313**

* Please refer to Note 18 (iv) for information relating to RMT Warehouse.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Concentration of credit risk

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its payment obligations when they fall due under normal and stress circumstances. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and credit facilities to meet its obligations as they fall due. Surplus funds are generally invested in at call bank accounts or instruments with maturities of less than 90 days. Within the RMT SPV's, the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 18, the Group has unused warehouse facilities at the reporting date. However, given no new loans are being originated via this business segment, the unused facility is not required.

The Group's Finance department also monitors actual and forecast cash flows on a daily basis to ensure that sufficient cash resources and/or financing facilities are in place to ensure the Group can meet its corporate debts and other payment obligations as and when they fall due.

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

Term Bonds payable

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

RMT warehouse facility

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

Going forward, the group is reliant on the renewal/negotiation of the existing warehouse facility or the issuance of new residential mortgage backed securities in order to fund the existing mortgage loans in the RMT SPV. The Group's warehouse facility has been extended for a further 12 months to 30 June 2010 and there are ongoing discussions with the warehouse provider in relation to the future maturity of the facility. There still remains a degree of uncertainty in the current market. The warehouse facility is structured so that if 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

CONSOLIDATED	MATURITY ANALYSIS						
	BALANCE $'000	0 - 6 MONTHS $'000	6 - 12 MONTHS $'000	1 - 3 YEARS $'000	3 - 5 YEARS $'000	> 5 YEARS $'000	TOTAL $'000
30 June 2009							
Financial Liabilities							
Leases and hire purchase	-	-	-	-	-	-	-
Trade payables	10,834	10,834	-	-	-	-	10,834
Interest bearing liabilities							
- Cash advance facility	8,429	3,146	5,478	-	-	-	8,624
- Net interest margin facility	2,423	2,124	326	-	-	-	2,450
- RMT Warehouse facility	516,742	102,360	435,276	-	-	-	537,636
- Bonds	164,561	34,065	27,420	65,682	27,664	24,908	179,739
- Loans from funders	3,958	446	403	1,259	840	1,604	4,552
Trailing commissions payable	14,146	3,470	2,814	6,746	2,788	2,057	17,875
Derivative financial liability	1,060	80	326	169	574	-	1,149
TOTAL	**722,153**	**156,525**	**472,043**	**73,856**	**31,866**	**28,569**	**762,859**

CONSOLIDATED	MATURITY ANALYSIS						
	BALANCE $'000	0 - 6 MONTHS $'000	6 - 12 MONTHS $'000	1 - 3 YEARS $'000	3 - 5 YEARS $'000	> 5 YEARS $'000	TOTAL $'000
30 June 2008							
Financial Liabilities							
Leases and hire purchase	469	417	62	-	-	-	479
Trade payables	6,914	6,914	-	-	-	-	6,914
Interest bearing liabilities							
- Cash advance facility	15,428	657	657	16,413	-	-	17,727
- Net interest margin facility	7,544	7,896	-	-	-	-	7,896
- RMT Warehouse facility	649,671	118,110	580,243	-	-	-	698,353
- Bonds	295,824	66,389	53,502	128,818	55,231	60,905	364,845
- Loans from funders	2,875	461	423	1,021	680	1,293	3,878
Trailing commissions payable	15,339	3,731	3,045	7,318	3,038	2,063	19,195
TOTAL	**994,064**	**204,575**	**637,932**	**153,570**	**58,949**	**64,261**	**1,119,287**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

PARENT	MATURITY ANALYSIS						
	BALANCE $'000	0 - 6 MONTHS $'000	6 - 12 MONTHS $'000	1 - 3 YEARS $'000	3 - 5 YEARS $'000	> 5 YEARS $'000	TOTAL $'000
30 June 2009							
Financial Liabilities							
Trade and other payables	20,853	20,853	-	-	-	-	20,853
Leases and hire purchase	-	-	-	-	-	-	-
Interest bearing liabilities							
- Cash advance facility	8,429	3,146	5,478	-	-	-	8,624
- Loans from funders	3,943	444	401	1,255	837	1,599	4,536
Trailing commissions payable	7,095	1,907	1,509	3,402	1,230	685	8,733
TOTAL	**40,320**	**26,350**	**7,388**	**4,657**	**2,067**	**2,284**	**42,746**

PARENT	MATURITY ANALYSIS						
	BALANCE $'000	0 - 6 MONTHS $'000	6 - 12 MONTHS $'000	1 - 3 YEARS $'000	3 - 5 YEARS $'000	> 5 YEARS $'000	TOTAL $'000
30 June 2008							
Financial Liabilities							
Trade and other payables	17,173	17,173	-	-	-	-	17,173
Leases and hire purchase	469	417	62	-	-	-	479
Interest bearing liabilities							
- Cash advance facility	15,428	657	657	16,413	-	-	17,727
- Loans from funders	2,825	454	417	1,002	668	1,270	3,811
Trailing commissions payable	8,112	2,172	1,727	3,899	1,409	775	9,982
TOTAL	**44,007**	**20,873**	**2,863**	**21,314**	**2,077**	**2,045**	**49,172**

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

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

Interest rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

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

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

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Financial Assets				
Cash and cash equivalents	73,851	72,600	47,168	44,402
Loans and advances to customers	642,285	896,727	-	-
Derivative financial instrument (notional value)	20,972	24,084	-	-
	737,108	993,411	47,168	44,402
Financial liabilities				
Interest-bearing liabilities - floating	(696,113)	(971,154)	(12,372)	(18,066)
	(696,113)	(971,154)	(12,372)	(18,066)
Net Exposures	**40,995**	**22,257**	**34,796**	**26,336**

The sensitivity to movements in interest rates in relation to the value of the interest bearing financial assets and liabilities is shown in the table below with all other variables held constant and assuming that interest rate changes are passed on. The change in basis points is derived from a review of historical movements.

MOVEMENT IN VARIABLE	2009		2008	
	NET PROFIT / (LOSS) AFTER TAX	TOTAL EQUITY	NET PROFIT / (LOSS) AFTER TAX	TOTAL EQUITY
	$'000	$'000	$'000	$'000
Consolidated				
+ 100bps	301	301	158	158
- 100bps	(301)	(301)	(158)	(158)
Parent	244	244	185	185
+ 100bps	(244)	(244)	(185)	(185)
- 100bps				

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above, a 100bps movement in interest rate risk would have minimal impact on the consolidated Group's financial position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its customers repay earlier than expected, which results in adverse movements in the future trailing commissions receivable and future trailing commissions payable. Refer to note 12 and note 19 for exposure at the balance date. The group monitors the prepayment rates on a monthly basis and modifies its valuation model input when the trends are established.

The consolidated Group's sensitivity to movements in prepayment rates in relation to the value of the financial assets and liabilities is shown in the table below with all other variables held constant.The change is derived from a review of historical movements.

MOVEMENT IN VARIABLE	2009		2008	
	NET PROFIT / (LOSS) AFTER TAX	TOTAL EQUITY	NET PROFIT / (LOSS) AFTER TAX	TOTAL EQUITY
	$'000	$'000	$'000	$'000
Consolidated				
+ 10%	(1,180)	(1,180)	(1,439)	(1,439)
- 10%	1,365	1,365	1,672	1,672
Parent				
+ 10%	(916)	(916)	(1,074)	(1,074)
-10%	1,064	1,064	1,249	1,249

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

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

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

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

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

The fair value of interest rate swap contracts and fixed rate interest bearing liabilities is determined by reference to market value for similar instruments. The future trailing commissions receivable and future trailing commissions payable have a carrying amount that approximates fair value.

	CARRYING AMOUNT		FAIR VALUE	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Consolidated				
Financial assets				
Cash	73,851	72,600	73,851	72,600
Receivables	6,245	9,506	6,245	9,506
Loans and advances to customers	663,258	920,811	663,258	920,811
Other financial assets	34,023	39,638	34,023	39,251
Financial liabilities				
Payables	10,834	6,914	10,834	6,914
Interest bearing liabilities	696,113	971,811	696,113	971,811
Other financial liabilities	15,206	15,339	15,206	15,339

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

	CARRYING AMOUNT		FAIR VALUE	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Parent				
Financial assets				
Cash	47,168	44,402	47,168	44,402
Receivables	17,044	19,771	17,044	19,771
Other financial assets	22,344	25,140	22,344	25,140
Financial liabilities				
Payables	20,853	17,173	20,853	17,173
Interest bearing liabilities	12,372	18,722	12,372	18,722
Other financial liabilities	7,095	8,112	7,095	8,112

NOTE 25: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Consolidated entity as lessee

The consolidated entity has entered into commercial property leases on its office space requirements. Operating leases have an average lease term of 5.8 years. Assets, which are the subject of operating leases, include office space and items of office machinery.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Within one year	1,592	1,915	1,592	1,794
After one year but not more than five years	4,277	5,407	4,277	5,407
More than five years	-	220	-	220
	5,869	**7,542**	**5,869**	**7,421**

Operating lease commitments – Consolidated entity as lessor

The consolidated entity has entered into commercial property leases on its surplus office space requirements. Operating leases have an average lease term of 6.4 years.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Within one year	724	694	724	694
After one year but not more than five years	1,691	2,294	1,691	2,294
More than five years	-	73	-	73
	2,415	**3,061**	**2,415**	**3,061**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

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

Finance lease commitments – Consolidated entity as lessee
The consolidated entity had previously entered into finance leases of plant and equipment. All leases were repaid in full as at 30 June 2009.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2009		2008	
	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF LEASE PAYMENTS	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF LEASE PAYMENTS
	$'000	$'000	$'000	$'000
CONSOLIDATED				
Within one year	-	-	479	469
After one year but not more than five years	-	-	-	-
Total minimum lease payments	-	-	479	469
Less amounts representing finance charges	-	-	(10)	-
Present value of minimum lease payments (Note 18)	-	-	469	469

	2009		2008	
	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF LEASE PAYMENTS	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF LEASE PAYMENTS
	$'000	$'000	$'000	$'000
PARENT				
Within one year	-	-	479	469
After one year but not more than five years	-	-	-	-
Total minimum lease payments	-	-	479	469
Less amounts representing finance charges	-	-	(10)	-
Present value of minimum lease payments	-	-	469	469

The weighted average interest rate implicit in the leases for both the consolidated entity and Homeloans is not applicable at 30 June 2009 given all leases were repaid during the year (2008: 8.83%).

Loans approved but not advanced

	CONSOLIDATED		HOMELOANS LIMITED	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Loans approved but not advanced	346	3,208	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 26: RELATED PARTY DISCLOSURES

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

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Parent entity					
Homeloans Limited					
Controlled entities of Homeloans Limited:					
NSW Home Loans Pty Ltd	Australia	100%	100%	-	-
VIC Home Loans Pty Ltd	Australia	100%	100%	-	-
QLD Home Loans Pty Ltd	Australia	100%	100%	-	-
SA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
WA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
IF & I Securities Pty Ltd	Australia	100%	100%	-	-
FAI First Mortgage Pty Ltd	Australia	100%	100%	-	-
Access Home Loans (*) Consolidated incorporating:				6,869	9,620
- Access Network Management Pty Ltd	Australia	100%	100%	-	-
- Access Home Loans Pty Ltd	Australia	100%	100%	-	-
- HLL Pty Ltd	Australia	100%	100%	-	-
Independent Mortgage Corporation Pty Ltd	Australia	100%	100%	-	-
Match Funds Management Limited (*)	Australia	100%	100%	56	113
Residential Mortgage Trust Warehouse Trust No.1 (a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.5 (a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.6 (a)	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 (a)	Australia	100%	100%	-	-
Auspak Financial Services Pty Ltd (*)	Australia	100%	100%	1,466	2,209
				8,391	11,942

a – Capital unit is held by a third party.

* - The decrease is attributed to investment write down during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 9 and note 17).

RELATED PARTY		SALES TO RELATED PARTIES	PURCHASES FROM RELATED PARTIES	AMOUNTS OWED BY RELATED PARTIES	AMOUNTS OWED TO RELATED PARTIES
		$	$	$	$
PARENT					
Subsidiaries:					
FAI First Mortgage Pty Ltd	2009	6,144,110	-	-	56,510
	2008	8,957,249	-	4,392,555	-
Access Network Management Pty Ltd	2009	3,975,025	-	2,711,475	8,209,726
	2008	2,178,245	-	-	7,947,072
Match Funds Management Limited	2009	-	-	-	14,014
	2008	-	-	-	13,979
Independent Mortgage Corporation Pty Ltd	2009	-	-	12,255,331	-
	2008	-	-	12,589,529	-
Residential Mortgage Trusts	2009	-	-	-	3,705,795
	2008	-	-	-	3,705,795
Auspak Financial Services Pty Limited	2009	-	-	256,387	-
	2008	-	-	-	-
Other related parties:					
National Mortgage Brokers Pty Ltd (formerly Mosaic Financial Services Pty Ltd)	2009	-	-	166,241	-
	2008	-	-	71,612	-
Challenger Mortgage Management	2009	1,672,385	-	-	-
	2008	3,045,012	-	-	-

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

Other related parties
The Group has a 26.5% interest in National Mortgage Brokers Pty Limited ("nMB"). nMB was incorporated in Australia and its principal activity is mortgage origination.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

On 18 August 2009, National Australia Bank (NAB) acquired the Mortgage Management division of Challenger Financial Services Group. The purchase includes the 41% stake in Homeloans Limited held by Challenger Financial Services Group. The terms of the transaction include NAB taking an immediate stake of 17.5% in Homeloans with the potential to increase this to 41% subject to Homeloans Limited shareholder approval.

On 27 August 2009, the Directors of the Company declared a final dividend in respect of the year ended 30 June 2009 of 5.5 cents per share, fully franked. The dividend has not been provided for in the 30 June 2009 financial statements. The final dividend is payable on 28 September 2009.

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

NOTE 28: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		**HOMELOANS LIMITED**	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Amounts received or due and receivable by Ernst & Young (Australia) for: • an audit or review of the financial report of the entity and any other entity in the consolidated group	284,177	337,305	230,720	271,920
	284,177	337,305	230,720	271,920

NOTE 29: DIRECTORS AND EXECUTIVE DISCLOSURES

Compensation by Category: Key Management Personnel

	CONSOLIDATED		**HOMELOANS LIMITED**	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Short-Term	1,678,481	1,955,305	1,678,481	1,955,305
Post Employment	110,662	99,273	110,662	99,273
Other Long-Term	-	-	-	-
Termination Benefits	199,184	278,762	199,184	278,762
Share-based Payment	1,314	23,146	1,314	23,146
	1,989,641	2,356,486	1,989,641	2,356,486

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Option holdings of Key Management Personnel (Consolidated)

						VESTED AT 30 JUNE 2009		
	BALANCE AT BEGINNING OF PERIOD 1 JULY 08	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 09	TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2009								
Directors								
B.D.Jones	2,000,000	-	-	(2,000,000)	-	-	-	-
Executives								
L.McDonald	95,000	-	-	-	95,000	95,000	95,000	-
A.Carn	-	-	-	-	-	-	-	-
C.Matthews	-	-	-	-	-	-	-	-
S.McWilliam	50,000	-	-	-	50,000	37,500	37,500	-
S.Scahill	75,000	-	-	-	75,000	62,500	62,500	-
Total	**2,220,000**	**-**	**-**	**(2,000,000)**	**220,000**	**195,000**	**195,000**	**-**

includes cancelled, forfeits and options that lapsed or did not meet performance hurdles.

						VESTED AT 30 JUNE 2008		
	BALANCE AT BEGINNING OF PERIOD 1 JULY 07	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 08	TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2008								
Directors								
B.D.Jones	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
J.L.Smith	1,150,000	-	(200,000)	(950,000)	-	-	-	-
Executives								
L.McDonald	95,000	-	-	-	95,000	95,000	95,000	-
A.Carn	-	-	-	-	-	-	-	-
C.Matthews	-	-	-	-	-	-	-	-
S.McWilliam	50,000	-	-	-	50,000	25,000	25,000	-
S.Scahill	75,000	-	-	-	75,000	50,000	50,000	-
T.Phillips/ B.Hartley	1,500,000	-	-	(1,500,000)	-	-	-	-
Total	**4,870,000**	**-**	**(200,000)**	**(2,450,000)**	**2,220,000**	**2,170,000**	**2,170,000**	**-**

includes cancelled, forfeits and options that lapsed or did not meet performance hurdles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Shareholdings of Key Management Personnel
Shares held in Homeloans Limited (number)

	BALANCE 01 JULY 2008	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE 30 JUNE 2009
	ORD.	ORD.	ORD.	ORD.	ORD.
30 June 2009					
Directors					
T.A.Holmes	12,453,170	-	-	-	12,453,170
R.P.Salmon	12,114,186	-	-	-	12,114,186
R.N.Scott	2,077,982	-	-	972	2,078,954
B.D.Jones	225,952	-	-	(225,952)	-
B.R.Benari	-	-	-	-	-
D.Stevens	-	-	-	-	-
A.L. Hall	-	-	-	-	-
Executives					
S.Scahill	69,896	-	-	-	69,896
Total	**26,941,186**	**-**	**-**	**(224,980)**	**26,716,206**

	BALANCE 01 JULY 2007	GRANTED AS REMUNERATION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE 30 JUNE 2008
	ORD.	ORD.	ORD.	ORD.	ORD.
30 June 2008					
Directors					
T.A.Holmes	12,434,781	-	-	18,389	12,453,170
R.P.Salmon	12,114,186	-	-	-	12,114,186
B.D.Jones	225,952	-	-	-	225,952
J.L.Smith	86,883	-	200,000	(286,883)	-
R.N.Scott	2,077,982	-	-	-	2,077,982
Executives					
L.McDonald	-	-	-	-	-
S.Scahill	69,896	-	-	-	69,896
T.Phillips/ B.Hartley	2,598,811	-	-	(2,598,811)	-
Total	**29,608,491**	**-**	**200,000**	**(2,867,305)**	**26,941,186**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009 (continued)

Loans to Key Management Personnel

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

	BALANCE AT BEGINNING OF PERIOD	NEW LOANS	INTEREST CHARGED	INTEREST NOT CHARGED	BALANCE AT END OF PERIOD	NUMBER IN GROUP
	$'000	$'000	$'000	$'000	$'000	#
2009	3,283	239	-	-	3,217	2
2008	2,627	223	-	-	3,283	2

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

	BALANCE AT BEGINNING OF PERIOD	NEW LOANS	INTEREST CHARGED	INTEREST NOT CHARGED	BALANCE AT END OF PERIOD	HIGHEST BALANCE IN PERIOD
	$'000	$'000	$'000	$'000	$'000	$'000
Directors						
T.A. Holmes	2,467	180	-	-	2,398	2,486
R. P Salmon	816	59	-	-	819	822
Total	**3,283**	**239**	**-**	**-**	**3,217**	**3,308**

The above loans represent residential mortgages and have been advanced under the same terms and conditions as other borrowers. There were no other transactions with directors or key management personnel during the year.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Homeloans Limited, I state that:

1. In the opinion of the directors:

   (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2009.

On behalf of the Board

Timothy A. Holmes
Executive Chairman

Perth, 24 September 2009

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To the members of Homeloans Limited

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 balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

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

    i giving a true and fair view of the financial position of Homeloans Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 21 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Homeloans Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
24 September 2009

INVESTOR INFORMATION

The following information is furnished under the requirements of Chapter 4 of the Listing Rules of the Australian Stock Exchange Limited, to the extent that the information required does not appear elsewhere in the Financial Statements or the Directors Report.

The information has been prepared as at 22 September 2009.

(a) Substantial Shareholders:
Set out below is an extract of the Company's register of substantial shareholders, showing the substantial shareholders and the number of equity securities in which they have a relevant interest as disclosed in notices given to the Company.

SUBSTANTIAL HOLDER	NUMBER OF ORDINARY SHARES IN WHICH INTEREST HELD
Challenger Mortgage Management Holdings Pty Ltd Challenger Group Pty Ltd	22,886,540
National Australia Bank Ltd / Challenger Mortgage Management Holdings Pty Ltd *	17,363,460
Redbrook Nominees Pty Ltd Acres Holdings Pty Ltd	14,384,523
Timothy Alastair Holmes, Tico Pty Ltd (TA Holmes Family A/c), Tico Pty Ltd (TA Holmes Superfund A/c), Carol Mary Holmes, Joanna Mary Holmes, Tiffany Eliza Farrar Holmes, Lucy Caroline Holmes	12,476,795
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/c), Peterly Pty Ltd (Salmon Superfund A/c)	12,114,186

* Notice of initial substantial holder lodged by National Australia Bank Ltd on 20 August 2009. The registered holder of securities is Challenger Mortgage Management Holdings Pty Limited.

(b) The number of holders of each class of security
There are 651 holders of Ordinary Shares
There are 16 holders of Employee Options
There are 8 holders of Senior Executive Options

(c) Voting Rights
The Company has ordinary shares on issue. All of the Ordinary Shares are fully paid.

Voting rights attaching to each class of equity securities

Ordinary Shares
The holders of fully paid Ordinary Shares are entitled to attend and vote at all general meetings of the Company and are entitled to be represented at the meeting. On a show of hands every member present is entitled to one vote and on a poll every member present is entitled to one vote for every ordinary share held.

INVESTOR INFORMATION (continued)

(d) Distribution of shareholders and their holdings:

SIZE OF HOLDINGS	ORDINARY SHARES NUMBER OF HOLDERS
1 – 1,000	91
1,001 – 5,000	287
5,001 – 10,000	96
10,001 – 100,000	142
100,001 and over	35
TOTAL	**651**
Unmarketable parcel of shares	35

A marketable parcel of shares is defined by the ASX as a parcel of shares worth more than $500.00.

(e) Top 20 registered holders of Ordinary Shares:

NAME	ORDINARY SHARES	
	NUMBER OF SHARES HELD	% HOLDING
Challenger Mortgage Management Holdings Pty Ltd	40,000,000	39.76
Redbrook Nominees Pty Ltd	12,868,758	12.79
Tico Pty Ltd	11,923,420	11.85
Peterlyn Pty Ltd	11,747,975	11.68
Hartley Phillips Securities Pty Ltd	4,218,811	4.19
UBS Wealth Management Australia Pty Ltd	3,446,312	3.43
Gemtrick Pty Ltd	2,148,139	2.14
Acres Holdings Pty Ltd	1,515,765	1.51
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,494,404	1.49
Carpenter Nominees Pty Ltd	1,220,127	1.21
Ferber Holdings Pty Ltd	857,855	0.85
Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	500,100	0.50
JAMAC Holdings Pty Ltd	429,955	0.43
Mr Timothy Holmes	423,211	0.42
Mr Robert Salmon	366,211	0.36
Daison Holdings Pty Ltd	321,542	0.32
Mr Jarrod Lorne Andrew Smith	300,000	0.30
Beneficial Home Loans Pty Ltd	261,273	0.26
Challenger Group Pty Ltd	250,000	0.25
Mr Brian Donald Jones	225,952	0.22
TOTAL	**94,519,810**	**93.96%**

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

(g) Share Buy-Back
The on-market share buy-back of the Company's ordinary shares is temporarily suspended.

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Homeloans

think differently

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