Government of South Australia

HomeStart FINANCE

Annual Report 2011-12

Letter of Transmittal

28 September 2012

The Hon Patrick Conlon MP
Minister for Housing and Urban Development
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister,

HomeStart Finance 2011-12 Annual Report

On behalf of the Board and Management of HomeStart Finance, I am pleased to enclose the 2011-12 Annual Report for your information.

HomeStart delivered another year of sound financial achievement and community contribution. The external environment presented several challenges for the home finance industry but we continued to make progress towards our reason for being; making home ownership a reality for more people in more ways.

We look forward to another year of solid growth and strengthening our working relationships with both the private and public sector, to further contribute to the aims of the South Australian Strategic Plan.

If you would like more information on any aspect of our organisation, please do not hesitate to contact us.

Yours sincerely,

John Oliver
Chief Executive Officer
HomeStart Finance

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Report from the Chair

2011-12 presented both challenges and opportunities for South Australians looking to buy a home of their own.

While house prices cooled across the country and Reserve Bank of Australia cut the official cash rate four times, continued global economic turbulence and a general lack of consumer confidence further entrenched a new era of conservatism and caution.

This, combined with a two-speed economy which widened the gulf between earnings and cost-of-living for many in our target market, saw demand for home finance much reduced over the year.

Despite this difficult climate, I am pleased to report that 2011-12 was another year of solid progress for HomeStart. During the year we settled $289 million worth of loans and assisted 1371 South Australians into home ownership. The fact almost half of these loans were for first home buyers, a group particularly affected by the challenge of housing affordability, is well worth noting.

Other financial achievements for HomeStart include:

- profit before income tax equivalents of $14.4 million
- Return on Equity of 9.22%
- $39.4 million in payments to government by way of fees, dividends and taxes.

Alongside these financial outcomes, HomeStart continued its commitment to operational arrears management and credit policy maintenance. As at 30 June arrears levels were 2.34% and while these fluctuated throughout the year, they were generally maintained within the board's target of 2.5%. It is worth noting that 89.6% of HomeStart customers are currently in advance on their home loan payments.

I am also pleased to report that in May 2012, the state government approved a set of financial operating parameters for HomeStart which will allow us to continue providing affordable home ownership opportunities for more South Australians. A most important aspect of the parameters is a long term commitment to HomeStart's future lending growth which will enable it to assist even more people to get into the housing market.

Looking to the coming year, working with the newly formed Urban Renewal Authority has the potential to bring opportunities for further affordable housing outcomes. While there is no doubt the economic climate will continue to challenge lending institutions and governments alike, collaboration with other agencies, developers and builders represents an excellent way to create innovative solutions for affordable housing.

Further, state government incentives announced late in the financial year, including the extension of the First Home Owner Grant for construction and stamp duty exemptions for off-plan apartment purchases in the inner city, Playford and Bowden are positive steps to stimulate activity and we hope this leads to increased demand for our products.

Lastly, I would like to draw attention to the launch of the HomeStart Strategic Plan 2012-15. This document sets a clear path for HomeStart, encapsulated in the organisation's vision, or as we prefer to call it, our reason for being – 'Making home ownership a reality for more people in more ways.' The board endorses and supports the objectives the organisation has committed to undertake in order to bring this statement and the strategic plan to fruition.

I believe that given the challenges of affordability and the general uncertainty expressed by those considering home ownership, HomeStart's role as the place to get people started has never been more relevant. The organisation's focus on innovative home loans and dedicated customer service, as outlined in the strategic plan, sees us move toward the future with confidence.

In closing, I would like to thank all board members and employees for their continued input, endeavours and assistance during the year and in particular thank outgoing board member Estelle Bowman for her commitment to the goals of the organisation over many years. I would also like to welcome Chris Ward to the board. Chris is well known to us at HomeStart and brings with him many years of experience in lending; we look forward to his contribution in the coming years.

Claude Long
Chair

As an organisation with a 22 year history of making home ownership a reality for more people in more ways, HomeStart holds the enviable position of balancing the provision of genuine opportunity through housing with continued financial success.

When reflecting on what HomeStart has achieved in 2011-12, I am once again drawn to what I believe is the 'root cause' of our success: our people. HomeStart invests significantly in its employees, who in turn put in a remarkable effort to bring our aims to fruition. This is reflected at a high level by the facts and figures that make up the year.

To summarise, in 2011-12 we helped 1371 South Australian households into home ownership, 680 of which were first home buyers. Our commitment to being the place first home buyers start was formally recognised by the Australian Lending Awards in February 2012, where we were a national finalist in the Best First Home Buyer Lender category.

Underpinning our financial results were a raft of customer focused initiatives designed to help make our products and services even more attainable for the people of our state. A prime example is our progress on the adoption of a custom-built Front End Loan System (FELS) which will streamline the way in which we process loan applications.

This major project involves more than half of our employees and has taken significant planning to ensure a smooth, user-friendly implementation.

This year, we were also proud to launch a new educational website, mystart.com.au. This site is dedicated to providing South Australian focused information about the home buying process, including loan applications, house hunting, budgeting and much more. I'm pleased to report that more than 9000 people have visited the site since it was launched in May 2012.

Also in the customer space, we launched a new advertising campaign, 'Start something great'. This campaign focuses on shifting the mindset of renters who may feel stuck in their current situation, by presenting the opportunities HomeStart offers to help them into home ownership: lower upfront costs, less deposit and our clever repayment safeguard.

From a business perspective, we focused our attention on several 'Operational Excellence' projects designed to challenge the status quo of current practices, simplify our processes and reduce waste. This ultimately results in better outcomes for our customers as the business builds on its efficiency and adds value for them. I'm pleased to say that more than 50% of our people have now completed Operational Excellence training and participated in a related project.

In addition to the Operational Excellence training, our people also benefited from attending training in areas specific to the organisation's aims, including empowerment and emotional intelligence. Many employees also opted to take the opportunity to undergo further external training to enhance their skills.

With this strong internal focus on our people and our business operations providing a great grounding for future endeavours, we also looked forward through the development of the HomeStart Strategic Plan 2012-15.

Using the balanced scorecard as the foundation for our strategic plan, we have developed sixteen strategic objectives to fulfil over the next three years.

From these objectives, our three key priorities are to:

- continue to build an achievement culture
- increase the number of people we help
- make HomeStart the place first home buyers start.

I look forward to reporting on our progress toward achieving these goals in the coming years.

In closing, I would once again like to thank HomeStart's Board of Management and Executive Team for their contribution to HomeStart's on-going success. In a climate of uncertainty and change across the nation, their efforts have helped to ensure HomeStart continues to grow and progress as we work toward making our state an even more affordable and attractive place to live.

John Oliver
Chief Executive Officer
HomeStart Finance

Our Organisation

Our reason for being

Making home ownership a reality for more people in more ways.

Our values

- Empathy in delivery
- Leader in our field
- Ethical in action
- Commercial in thinking
- Team player at heart.

HomeStart was created by the South Australian Government in 1989 as a response to high interest rates and a lack of affordable home loan finance. At the time, these factors were significant barriers to home ownership.

As a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations pursuant to the Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart is empowered to:

- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including finance on concessional or special terms for low to moderate income earners.
- provide, market, and manage home finance products and facilitate alternative schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care facilities and rental accommodation in regional areas.

Reporting to the Minister for Housing and Urban Development, HomeStart works to help deliver the ambitions of *The 30-Year Plan for Greater Adelaide* together with the new Urban Renewal Authority, which holds the state's strategic assets.

HomeStart continues to liaise with Housing SA (within the Department for Communities and Social Inclusion) to develop housing initiatives and solutions, and is also involved with other consultative, service delivery and housing policy development groups.

HomeStart also works with other government departments, developers and Community Housing Organisations (CHOs) to create affordable housing options through a whole-of-industry approach.

Our customers

HomeStart works hard to attract and support a broad cross-section of South Australian home buyers. We recognise that customers are central to what we do, and strive to find what it is they value – and how we can help them overcome the barriers to achieving their goals. This customer-centric approach has enabled us to assist more than 62 000 South Australian households into home ownership since 1989, including 1371 households in 2011-12.

Our customers come from a variety of financial and personal circumstances. From the first home buyer living with their parents through to the private renter looking to start building their wealth, from families needing to refinance after a separation to migrants wanting to settle in South Australia, we provide solutions that make a real difference.

Despite the variety of circumstances our customers are in, and no matter which of the 102 countries of birth they come from, what unites the majority (currently 83%) is that they would not have been able to obtain finance from a mainstream lender to buy their home in South Australia. HomeStart customers have the additional benefit of the repayment safeguard, which helps breaks the link between interest rates and home loan repayments; a feature that many customers value.

Innovative and unique loan features such as the repayment safeguard underpin HomeStart's loan products, and is one way in which we address barriers to home ownership such as affordability. This is supported by the fact that 89.6% of HomeStart customers are in advance on their home loan repayments.

Changes in our customer portfolio over the financial year include:

- 2% increase in customers from the trade and para-professional fields
- 5% increase in first home buyers
- 6% increase in the proportion of customers moving from private rental
- 5% decrease in customers seeking refinance loans
- increase in the average property purchase price to $264 595 from $261 222 in the previous year
- decrease in average loan amount by $255 to $223 728.

> It's rewarding to feel you are helping people achieve their home ownership dreams through our home buyers seminars.
>
> **- Ruth Daugalis**

Our strategy

2011-12 marked the beginning of a new strategic planning process for HomeStart as the organisation undertook a comprehensive review of where it currently stands, and what its direction will be for the next three years.

More than just another piece of paper, HomeStart's Strategic Plan 2012-15 is a blueprint for HomeStart's future. The Strategic Plan outlines sixteen strategic objectives which will drive the organisation toward achievement of sustainable customer and financial outcomes, and ultimately see us realise our reason for being : Making home ownership a reality for more people in more ways.

The Strategic Plan was devised through an intensive process of consultation and ideas facilitation with board, executive, senior managers and other employees. Risks, challenges and opportunities were identified at macro-level, encompassing everything from global economic circumstances to government policy. These factors were considered from the perspectives of how they may affect how HomeStart operates, the value we offer the community and the way we go about achieving our goals.

The broad ideas explored at this high level were filtered through to select working groups across the organisation, which were given scope to devise creative solutions across our strategic themes:

- customer front of mind
- partnerships for growth
- innovation and simplicity
- sustainability and probity.

From this, the strategic objectives were developed with accompanying Key Performance Indicators. Initiatives designed to improve performance were prioritised according to relevance and impact, forming the framework for the organisation's focus over the coming three years.

Our objectives link directly to our reason for being, and will provide the basis for divisions, teams and individuals within the organisation to create their own goals which ultimately contribute to this central aim. In this way, each individual within the organisation will know exactly how their work forms an important and meaningful component of making home ownership a reality for more people.

HomeStart will report on achievement of the Strategic Plan objectives over the next three years, continually remembering, revisiting and refining what it is we're aiming to achieve as the years progress.

State government strategic priorities and the SA Strategic Plan

HomeStart seeks to actively contribute toward achieving elements of the state government's seven strategic priorities:

- creating a vibrant city
- renewing our neighbourhoods to make them safe and healthy
- clean green food as our competitive edge
- an affordable place to live for everyone
- every chance for every child
- growing advanced manufacturing
- realising the benefits of the mining boom for all South Australians.

The government has indicated these priorities are to be tackled through three approaches: a culture of innovation and enterprise; sustainability and a respect for individuals with a reciprocal responsibility to the community.

HomeStart has elected to embed these approaches to government within our strategic plan through the adoption of our strategic themes.

Of the seven strategic priorities HomeStart is in a position to directly and indirectly influence and achieve:

- an affordable place to live for everyone
- realising the benefits of the mining boom
- every chance for every child
- renewing our neighbourhoods.

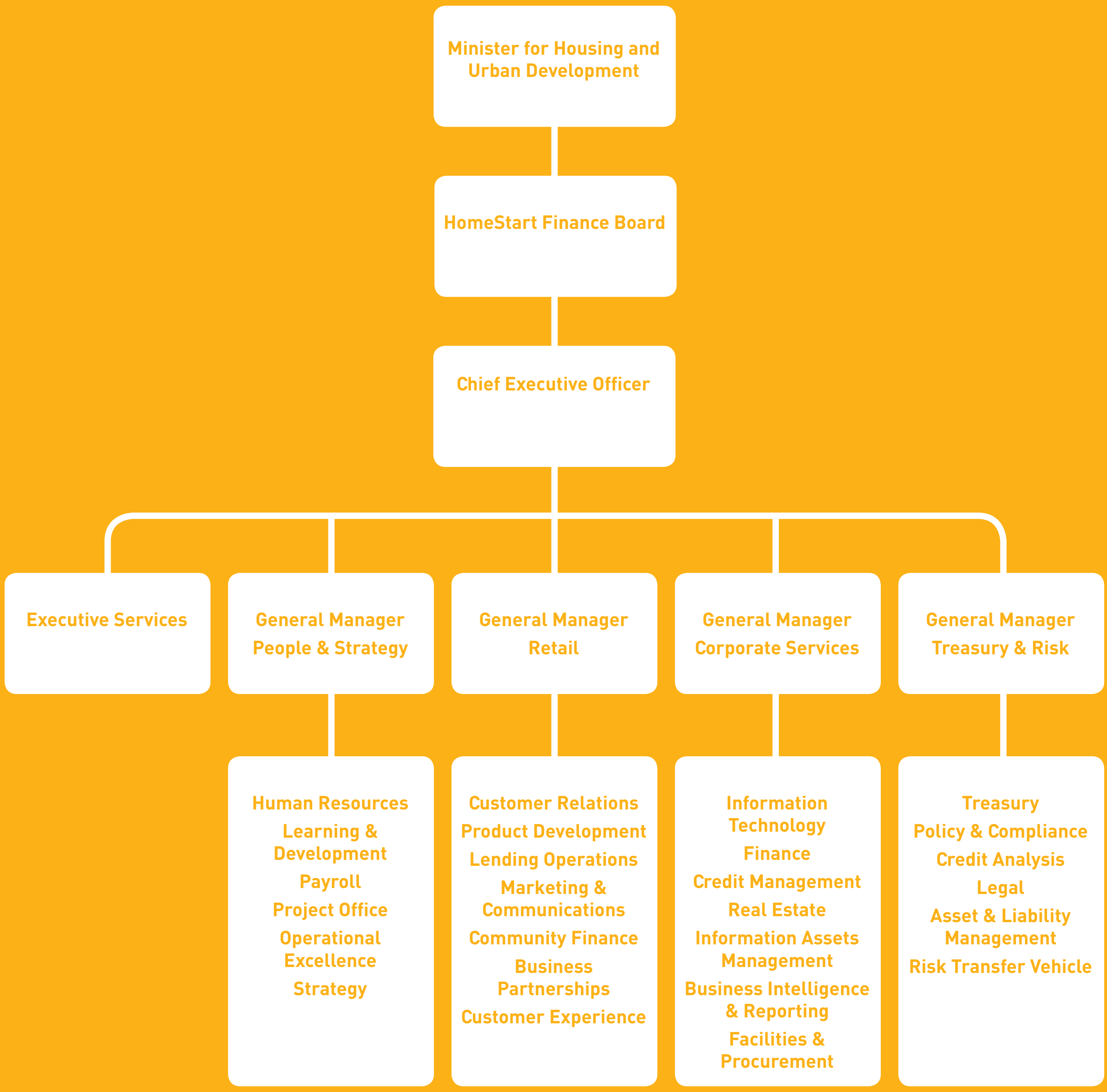
HomeStart is also able to create direct links to the following targets from the SA Strategic Plan:

Target 7: Affordable housing

Target 8: Housing stress

Target 32: Customer and client satisfaction with government services.

Organisational chart



Our Progress

Through the challenging market conditions of the 2011-12 financial year, HomeStart delivered 86% of its lending target, helping 1371 households into home ownership – a notable achievement in such an uncertain economic climate.

According to RP Data-Rismark, Australian housing market sentiment was weak with capital city house prices 3.6% lower than a year prior. This national trend was also felt in Adelaide, with a 2.4% decline in house prices over the same period.

According to Australian Bureau of Statistics (ABS) figures, the number of houses and units commencing construction fell almost 13% in the first three months of 2012.

The large-scale government incentives for first home buyers and then the subsequent withdrawal also had a significant impact on reducing demand. The Real Estate Institute of Australia (REIA) reports that housing finance figures for May 2012 showed the number of finance commitments declined by 0.5%, the fifth consecutive month of decreases.

This declining environment had a direct impact on home sale numbers, with media quoting figures from Treasury revealing the number of conveyancer duty transactions for the current financial year was estimated to be 42 000, 3000 less than in 1985. The report goes on to say that over the same period the state's population increased 20% from 1.37 million to 1.65 million.

HomeStart's brand and advertising awareness study for 2011-12, revealed that market conditions were having a negative impact on consumer sentiment. HomeStart's key messages were no longer resonating with target markets and awareness about HomeStart was on the decline. While there's no doubt that this environment presented great challenges for HomeStart, the organisation chose to use this lull in consumer demand to re-evaluate its position in the market and how to best inspire buyers to make the move from renting to a place of their own. This resulted in the launch of a new marketing campaign and educational website, mystart.com.au, to help encourage people to 'start something great' through buying a home.

It also provided the opportunity for the organisation to re-examine its internal processes to ensure we best meet customer needs.

Two key projects aimed at making gains in efficiency for the customer's benefit include a lending process review to simplify and enhance the lending experience, and implementation of a new Front End Loan System (FELS). A large proportion of the ground work for this system upgrade has been undertaken this year and its implementation in the next financial year will see further gains, not only for employees but also in turnaround times for the customer. FELS will also enhance our capacity to handle future growth.

Lending

HomeStart's total new lending was $271.6 million, an 18.3% decrease compared to last year, and a reflection of consumer sentiment in 2011-12. Lending volumes peaked early in the year with reduced activity in the latter half.

Housing Affordability

Between the March quarters of 2011 and 2012, Adelaide's median house price fell by 6.3% to $380 000. According to Census data, fewer South Australians owned their home outright in 2011 (31.5%) than in 2006 (33.5%), and REIA reported that while the proportion of family income needed for loan repayments fell 0.9 percentage points nationally in the March quarter to 32%, this is still above the average of 29.5% since 1995.

> HomeStart is a great organisation. This is a place to be proud of.
>
> **- Matthew Potts**

Despite the softening house prices, there is still a marked gap between what people earn and how much it costs to purchase a home. As indicated in the graph below, in 2011-12 the average loan size and median house prices decreased in a similar fashion, leaving the affordability gap constant.

All this points firmly to the importance of providing affordable, attainable home finance options to help people break free from the rental cycle and into home ownership with its associated benefits. HomeStart continues to fill a gap in the home ownership quest demonstrated by the high proportion of our customers (83%) who would not have been able to obtain finance from mainstream lenders.

Key loan results

In 2011-12 HomeStart helped a larger proportion of its portfolio, 677 households, out of the rental cycle compared to last financial year.

Graduate Loan

The Graduate Loan offers graduates who have a diploma, degree or higher qualification, as well as South Australian Police Officers and enrolled nurses, with the opportunity to enter home ownership with less deposit upfront.

A total of 168 Graduate Loans were settled in 2011-12, bringing the total number of loans to 1842 since the loan commenced in 2002.

Breakthrough Loan

In 2011-12 HomeStart celebrated the 1000th Breakthrough Loan settlement.

Customers can use the Breakthrough Loan to boost their borrowing power by up to 35% without increasing home loan repayments, or to reduce their mortgage repayments.

The Breakthrough Loan is combined with another HomeStart Loan and is based on a shared appreciation arrangement where the customer shares a portion of the home's change in value (capital gains or losses) with HomeStart when the property is sold.

Since the product's inception in 2007, 1072 loans have been settled. The value of loans (Breakthrough and HomeStart loan components) for the 2011-12 year was $32.5 million.

Loans for construction

The 2011-12 financial year saw an increase of 15% in the number of construction loans, with 152 loans worth $36.3 million in value written.

HomeStart's loans for construction offer customers flexible benefits such as the ability to defer home loan repayments until construction is complete or for nine months (whichever comes first).

Low Deposit Loan

HomeStart settled 64 Low Deposit Loans to the value of $15.6 million in 2011-12.

The Low Deposit Loan provides people looking to purchase a home in the metropolitan area with the opportunity to enter home ownership with less deposit upfront.

Eligible customers can borrow up to 97% of the property purchase price or value (whichever is less).

EquityStart Loan

The EquityStart Loan is an additional loan of up to $50 000 for current public housing tenants. It is combined with a HomeStart loan to boost borrowing power. Customers can use it to buy the Housing SA home they're living in (if it's for sale), another Housing SA property, buy on the private market, or build.

A total of 44 EquityStart Loans were settled in 2011-12, bringing the number of loans since inception to 1218.

The EquityStart Loan is a joint initiative of HomeStart and the Department for Communities and Social Inclusion.

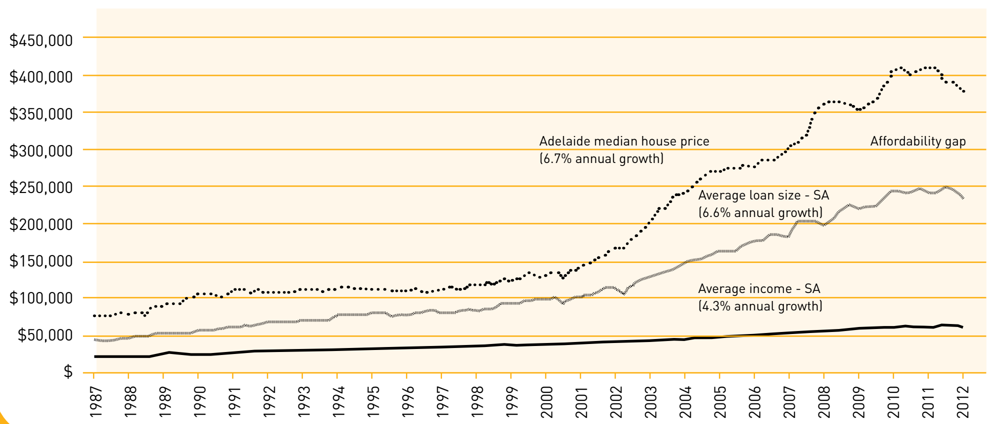
Advantage Loan

The Advantage Loan is designed to help low income earners (with a total household income of less than $40 000 per annum) achieve home ownership. The Advantage Loan offers customers an additional loan of up to $30 615 and is combined with another HomeStart Loan to boost borrowing power.

In 2011-12 HomeStart settled 239 Advantage Loans to the value of $5.4 million.

Housing Affordability

Source: ABS, REIA and HomeStart internal calculations



Wyatt Loan

The Wyatt Loan helps lower income earners with a net household income of up to $40 000 per annum. A loan of up to $10 000 is granted to eligible applicants and remains interest free for up to five years.

A total of 36 Wyatt Loans were settled this financial year.

The Wyatt Loan is supported by the Wyatt Benevolent Institution Inc, a not-for-profit organisation dedicated to reducing financial disadvantage.

Regional lending

HomeStart's lending to regional South Australia remained steady at 28% of new lending over the 2011-12 financial year.

HomeStart facilitates regional lending through the HomeStart branch in Whyalla and its third party distribution networks including loan managers and brokers.

Distribution network

HomeStart works with three distribution channels including two HomeStart offices (Adelaide and Whyalla); four loan managers (BankSA, The Home Loan Centre, HomeLoans Plus and Bernie Lewis); and a broker network.

Since the commencement of HomeStart's broker network in 2009, HomeStart has accredited 106 individual brokers from 21 different groups including the introduction of AFG in 2012, a large aggregator.

HomeStart's Greenlight extranet site provides our distribution network with a central resource for information and updates. The accompanying Greenlight e-newsletter, distributed quarterly, increased in readership this year.

In 2011-12, HomeStart participated as an exhibitor in the Mortgage & Finance Association of Australia (MFAA) National Convention, a unique opportunity where industry bodies and professionals showcase their product offerings and network.

Over the past twelve months, HomeStart has reviewed its distribution strategy and is now in the process of implementing various recommendations that will improve service delivery and strengthen third party relationships with brokers and loan managers.

The distribution strategy aims to make HomeStart Loans accessible to more customers while maintaining high service levels and consistent pricing. We look forward to making even further improvements that will increase our reach within the community over the next financial year.

Customer service

HomeStart offers various touch points for customers including in person at our offices, over the phone with our Customer Contact Centre (CCC) or Customer Experience Team and online via the loan management system, eHomeStart for self-service.

In 2011-12, CCC received 9752 enquiries, referring 43.9% of all settlements.

HomeStart measures customer satisfaction through the Net Promoter Score (NPS) methodology. This measure is reflective of how likely customers are to recommend HomeStart to other people. In 2011-12 HomeStart's NPS score remained above the industry average at 33%.

Digital media

The corporate website, homestart.com.au continues to be the first port of call for many potential customers. We've seen a 21% growth in the number of visits, an increasing number from mobile devices.

In May 2012, HomeStart launched a new educational website, mystart.com.au. This site is a rich resource of tools, tips and information on the home buying and home loan application processes. Mystart.com.au has received positive feedback from users including our third party brokers and loan managers who complement its usability and wealth of information.

By 30 June 2012, the site had received 9236 visits.

Since the launch of HomeStart's social media strategy last year, we've seen HomeStart's presence in the arena grow steadily, building an interactive online community.

HomeStart's Facebook 'likes' or followers grew by 54% over twelve months. Followers receive regular updates including saving and budgeting tips and information about the home buying process from HomeStart. The Facebook page has also been a useful resource to collect customer feedback as well as engage with potential customers.

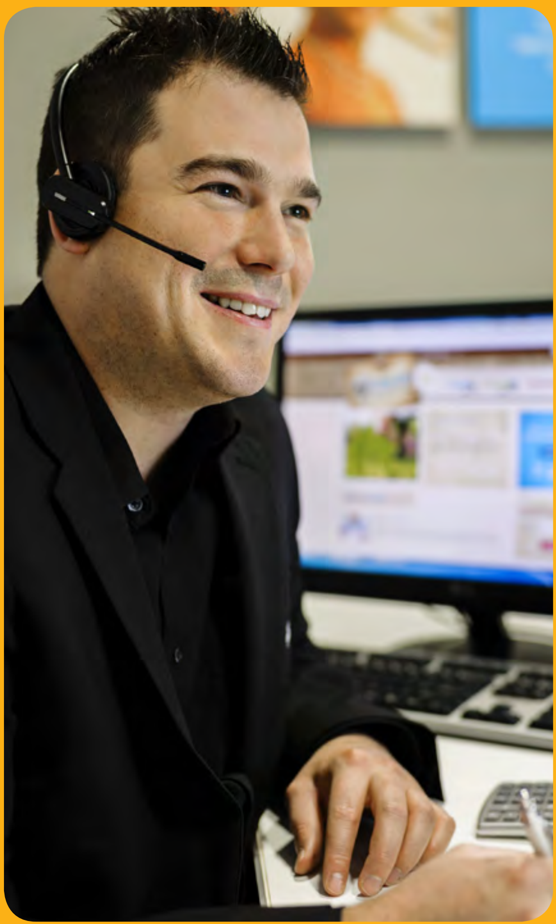
HomeStart also sends out a quarterly digital newsletter to potential customers. As at 30 June 2012, this had 2893 subscribers.

HomeStart also uses YouTube to share useful information and marketing material. Our channel has had total views of 6037.

Going forward, HomeStart's digital strategy will aim to cater to the increasing proportion of mobile devise users and continue to foster a community of interactive users. The strategy recognises that social media is an increasingly popular avenue not only to talk to customers but also to listen.

What a great year at HomeStart, an excellent year for change, training and moving forward.

- Craig Benger



Sustainability initiatives

HomeStart's sustainability team actively promotes environmentally friendly practices within the organisation.

Colour printing and electricity usage reductions continue to be a focus for the organisation.

In 2011-12 HomeStart successfully introduced a more comprehensive recycling program, which has increased the percentage of waste that is recycled as well as saving HomeStart $1352 per year. Board papers are now distributed electronically, saving over $20 000 p.a. in paper and printing costs.

HomeStart's waterless urinals continue to save hundreds of thousands of litres of water each year.

Currently, the sustainability team is investigating replacing all halogen down lights with LED lighting, which will reduce lighting costs by 75%.

Community lending

HomeStart's specialist community lending team partners with federal and state government agencies, who provide grant funding and National Rental Affordability Scheme (NRAS) incentives, as well as benevolent associations who provide gift funding, to deliver community lending finance to CHOs.

HomeStart's community loan funds are only utilised after all government grant funding, gift funding and customer cash have been used in land purchase and house construction. HomeStart then provides top up funding through its Flexicom Loans to complete the housing deal.

HomeStart has achieved 299 community housing outcomes in the past four years to the value of $28.7 million in loans.

Community contribution

HomeStart supports a range of projects within the South Australian community. Last financial year saw the launch of a new Community Engagement Strategy (CES) which centralised our approach to community contribution.

Our CES focuses on four key areas:

- education and youth
- community wellbeing
- indigenous matters
- shelter.

HomeStart's initiatives are then delivered through sponsorships, seminars, corporate volunteering and donations and fundraising.

Sponsorship

In 2011-12 HomeStart enjoyed joint naming rights to *The Advertiser HomeStart Trailblazer Challenge* event. This fundraising event supports youth at risk through the Operation Flinders program. A total of 1024 people took part including thirteen HomeStart employees, raising $165 000.

HomeStart is also the principal prize sponsor of the Channel 9 Young Achiever Awards that encourage and promote the positive achievements of young South Australians aged between fourteen and 28. The event continues to grow, achieving a record attendance of 460 guests for the awards presentation dinner where Premier Jay Weatherill was in attendance.

Seminars

HomeStart remains committed to helping more South Australians into home ownership and one of the ways we promote this is through education. Our seminar program delivered five major seminars over the year with an average attendance of 65 people.

The seminars educate people about the home buying process, with the majority of attendees being graduates and first home buyers.

HomeStart also held smaller seminars for various community groups including Women's Housing Association and the Real Estate Institute of South Australia, and co-presented with the Affordable Homes Program.

Our seminar DVD was also distributed to the Migrant Resource Centre, Anglicare, Centacare and Indigenous Coordination Centres to name a few.

Corporate volunteering

HomeStart's CES allocates one day a year of paid volunteer leave to each eligible employee. Since its introduction last year, over 20% of employees have made use of this opportunity, with one group helping out on a Habitat for Humanity build site and another at the Minton Farm Animal Rescue Centre.

Employees have shown great enthusiasm for this initiative and many more intend to use this day in the coming financial year. They can choose to volunteer with a range of approved partners that fall into HomeStart's chosen key areas of focus.
HomeStart collaborates with Corporates4Communities to conduct this initiative.

Donations and fundraising

The CES allocates $25 000 to a donations committee which assess various applications and grant donations to a range of community groups meeting a particular criteria aligned to HomeStart's values.

In 2011-12, HomeStart helped:

- purchase materials for a Habitat for Humanity home
- feed the homeless at Hutt Street Centre
- assist youth at risk into independent living with Ladder
- buy an oven to feed the hungry Operation Flinders volunteers at Yankaninna Station
- house families in temporary accommodation while their children underwent heart or cancer treatment through HeartKids
- provide computer screens to Southern Junction Housing.

Employees also fundraise within the organisation and during 2011-12, donated to organisations such as Jeans for Genes, the Heart Foundation and Southern Junction Community Services.

HomeStart CEO John Oliver participated in the CEO Sleepout for the second year running, raising over $5600 for the St Vincent de Paul Society.

Our People

In 2011-12 HomeStart built on its achievement culture to enhance individual and organisational performance. Work introduced in the prior year to align our ideal culture with the systems, structures and staffing practices has been an underpinning platform for lifting employee engagement and effort in the twelve months to 30 June 2012.

This year we focused on retaining positive and productive elements of our culture – for which we have received numerous awards. We also introduced a range of structures and practices that enable our people to make appropriate decisions, manage risk and enhance their own work.

We started several important projects to improve customer value, and also improve the skill sets and confidence of our employees in problem solving, innovation and enhanced effectiveness.

Key highlights for 2011-12

Development of our new Strategic Plan has provided a platform for setting individual employee objectives, an important achievement for the organisation. Other key highlights for the year include;

- continued focus on aligning behaviours and actions to support performance expectations through use of a cultural diagnostic tool in the planning efforts of teams
- redevelopment of our employee recognition program to support desired employee behaviours
- introduction of a talent management program to capture employee aspirations, succession possibilities and targeted development opportunities
- enhancement of our performance management processes through the introduction of a calibration process linked to individual performance reviews
- achievment of a participation rate of 52% of all employees in an Operational Excellence initiative, contributing to a realisation of benefits totalling $109 000, with all closed initiatives realising a total benefit of $252 000 (two years from closure, based on recurring savings).

Employee development

HomeStart invests significantly in the development of its employees through a range of tertiary courses and tailored opportunities. Our spend on development activities amounts to 4% of our overall salary budget.

In 2011-12 we continued our three-pronged plan targeting leadership capacity building, formal tertiary courses for select employees, and a program of targeted cross-organisational development in the areas of 'giving and receiving feedback', 'emotional intelligence', 'empowerment' and Operational Excellence. Formal qualifications obtained during the year include Certificate IV and Diploma of Project Management, Certificate IV and Diploma of Financial Services, Certificate IV and Diploma of Management.

HomeStart treats its people as its most valuable assets, which leads to exceptional experiences for customers.

- Pratiban Parthiban

It's been great to see the development of a Management Responsibilities Program that's inspired our leaders to enhance their capabilities.

- Vanessa Charlesworth

Performance management and consultation

HomeStart's approach to performance management is maturing, aiding our focus on empowerment, accountability and achievement. We are clear that a focus on individual performance underpins the success of the organisation.

A regular program of one-on-one meetings between employees and their manager, from the CEO down, supports the formal mid-year and end-of-year reviews that form part of the performance management effort.

HomeStart's Consultative Committee is a primary vehicle for communication and consultation with employees. The committee comprises employees across all departments, management and human resources. Its purpose is to shape employment conditions and policies and practice, raise employment-related topics for discussion and monitor the interpretation and application of HomeStart's Enterprise Agreement.

The activities of the Consultative Committee in 2011-12 included:

- renegotiating the Enterprise Agreement
- facilitating the installation of phone lines in all meeting rooms
- facilitating access to lap tops in meeting rooms.

Workplace benefits

HomeStart offers flexible working arrangements and benefits which balance the needs of employees and the business. In a research study conducted in late 2011 into the 'Employee Value Proposition', it was confirmed that of the myriad offerings provided by HomeStart to its employees, flexible working arrangements rate in the top three of importance.

In 2011-12 the following were offered:

- five weeks annual leave
- job share, work from home, part-time work
- family, carer's and bereavement leave
- sixteen weeks paid maternity leave (or eighteen weeks for employees who have been employed by HomeStart for not less than five years) and four weeks paid paternity leave
- ability to purchase additional annual leave
- leave to support further study
- annual Healthy Lifestyle Benefit for participation in activities that contribute to a healthy lifestyle
- influenza vaccinations
- blood donation program
- salary continuance (income protection) insurance
- corporate volunteering program
- Employee Assistance Program offering access to counselling services.

Statistics

Documented individual performance development plan

Employees with	% of total workforce
A review within the past 12 months	98.1%
A review older than 12 months	0.0%
No review	1.9%

Cultural and linguistic diversity

	Male	Female	Total	% of agency	SA community*
Number of employees born overseas	13	20	33	32.0%	20.3%
Number of employees who speak language(s) other than English at home	3	6	9	8.7%	16.6%

** Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0, 2006 census*

Employee numbers, gender and status

Total number of employees	
Persons	103
Full-time equivalents (FTEs)	96.4

Gender	% Persons	% FTEs
Male	43.7%	46.5%
Female	56.3%	53.5%

Number of persons during the 2011-12 financial year	
Separated from HomeStart Finance	12
Recruited to HomeStart Finance	16

Number of persons at 30 June 2012	
On leave without pay	4

Number of employees by salary bracket

Salary bracket	Male	Female	Total
$0 - $51 599	6	10	16
$51 600 - $65 699	8	17	25
$65 700 - $84 099	12	16	28
$84 100 - $106 199	7	4	11
$106 200+	12	11	23
Total	**45**	**58**	**103**

Statistics

Status of employees in current position

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	38.8	2	4	0	44.8
Female	44.8	5.8	1	0	51.6
Total	**83.6**	**7.8**	**5**	**0**	**96.4**
Number of persons	**Ongoing**	**Short-term contract**	**Long-term contract**	**Other (casual)**	**Total**
Male	39	2	4	0	45
Female	51	6	1	0	58
Total	**90**	**8**	**5**	**0**	**103**

Average day's leave per full-time equivalent employee

Leave type	2011-12	2010-11	2009-10	2008-09
Sick leave	6.1	7.4	5.9	5.9
Family carer's leave	1.5	1.8	1.3	1.3
Miscellaneous special leave	0.8	0.5	0.3	1.0

Voluntary flexible working arrangements by gender

Leave type	Male	Female	Total
Purchased leave	1	1	2
Flexitime	0	0	0
Compressed weeks	0	0	0
Part-time	1	19	20
Job share	0	4	4
Working from home	3	12	15

Aboriginal and/or Torres Strait Islander employees*

Salary bracket	Aboriginal employees	Total employees	% Aboriginal employees	Target
$0 - $51 599	0	16	0.0%	2%
$51 600 - $65 699	0	25	0.0%	2%
$65 700 - $84 099	1	28	3.57%	2%
$84 100 - $106 199	0	11	0.0%	2%
$106 200+	0	23	0.0%	2%
Total	**1**	**103**	**0.97%**	**2%**

** Target from South Australia's Strategic Plan*

Statistics

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total workforce	Workforce benchmark*
15-19	0	0	0	0.0%	6.4%
20-24	1	1	2	1.9%	10.4%
25-29	2	5	7	6.8%	11.0%
30-34	6	7	13	12.6%	10.1%
35-39	8	15	23	22.3%	10.3%
40-44	7	11	18	17.5%	11.0%
45-49	9	8	17	16.5%	11.5%
50-54	6	8	14	13.6%	11.4%
55-59	3	2	5	4.9%	9.4%
60-64	2	1	3	2.9%	5.5%
65+	1	0	1	1.0%	3.0%
Total	**45**	**58**	**103**	**100.0%**	**100.0%**

** Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001*
Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at May 2011

Leadership and management training expenditure

Training and development	Total cost	% of total salary expenditure
Total training and development expenditure	$617 015	6.7%
Total leadership and management development expenditure	$224 631	2.4%

Executives by gender and status

	Ongoing		Term tenured		Term untenured		Other (Casual)		Total				
	Male	Female	Male	Female	Male	Female	Male	Female	Male	%	Female	%	Total
Total	0	0	0	0	4	1	0	0	4	80%	1	20%	5

Our Business

Sustainable financial management

Financial targets were achieved this year including an operating profit before tax of $14.4 million ($15.5 million, 2010-11) against a budget of $10.5 million, representing a Return on Equity of 9.22% against a target of 9%. Payments to government amounted to $39.4 million this year and have totalled $336 million since HomeStart's inception.

Faced with a challenging economic environment and a housing market impacted by uncertainty and lack of consumer confidence, these outcomes reflect our continued focus on commercial objectives and prudent financial, risk and asset management policies balanced with our social obligations for customers and stakeholders.

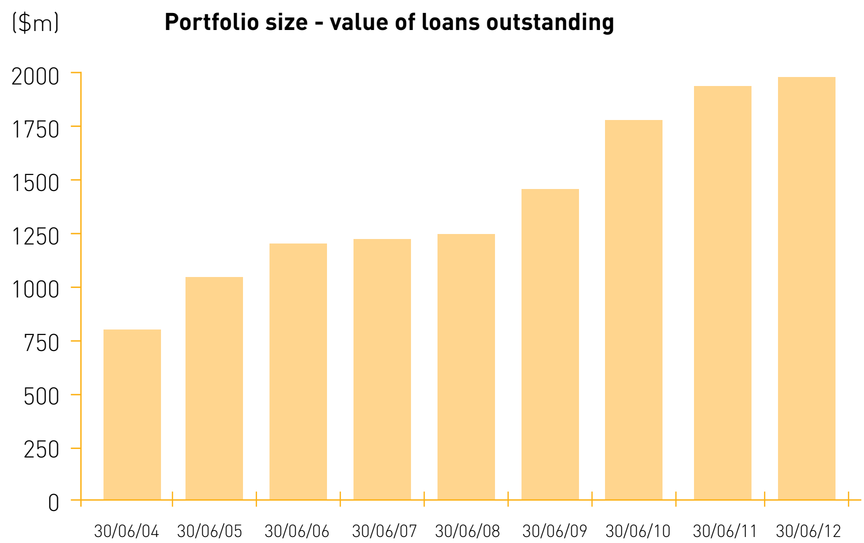
In May 2012, the state government approved a set of financial operating parameters for HomeStart for the next four years. The implementation of these parameters provide long-term certainty for HomeStart and a key platform from which we can continue to provide home ownership opportunities to our customers while meeting our commercial responsibilities.

Under the terms of these agreed parameters, HomeStart received a Community Service Obligation (CSO) payment of $9.1 million in 2011-12 in recognition of the cost of providing our non-commercial activities.

HomeStart's debt funding from the South Australian Government Financing Authority (SAFA) grew to $1812 million against a borrowing limit of $1900 million. In the interest of prudent financial management, HomeStart has set minimum capital levels. Lending over the last year and a reduction of capital has seen our capital adequacy ratio reduce slightly to 13.6% (13.7%, 2010-11) against a target range of 12% - 14%. Under the agreed operating parameters, HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, where necessary.

Asset and liability management

In 2011-12, the lending portfolio grew by 2.9% to $1973 million ($1917 million, 2010-11), as a result of steady settlement levels and relatively low discharges over the last twelve months. To ensure the on-going availability of some higher risk products in response to market need, HomeStart maintains a prudent approach to credit quality and provisioning by utilising credit risk management systems to inform lending decisions, and to allocate and monitor appropriate benchmarks for portions of the lending portfolio.



Finance, treasury and risk teams

The finance, treasury and risk teams aim to ensure HomeStart is in the best possible financial position to sustain our business activities, meet our social obligations and achieve financial performance targets.

Funding

HomeStart's lending is financed by its capital base and borrowings from the South Australian Government Financing Authority (SAFA). A global approach to treasury risk management has been adopted whereby risks are amalgamated from all activities and managed on a consolidated basis, taking advantage of offsetting risks.

A Treasury Master Document outlines all treasury policies, processes and procedures, and the limitations within which our treasury department must operate. The document also governs the structure and approach to the management of our debt portfolio.

The Asset and Liability Committee oversees the management of asset price setting and policy, and is ultimately responsible for the treasury operations of HomeStart. The Finance Sub-Committee, a sub-committee of the Asset and Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures, and pricing.

Risk Transfer Vehicle (RTV)

In July 2000, HomeStart's Board established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks. It is a division of HomeStart managed by the Asset and Liability Committee. A Loan Provision Charge is collected from loans settled as a part contribution toward write-offs, which is invested in various asset classes in line with the RTV asset allocation strategy.

This year the RTV returned 5.44% with a total return of 4.17% since inception. Initially funded with $20 million, the RTV's investments now total $48.6 million.

The Asset and Liability Committee engages investment advisory companies to regularly review the RTV's investment strategy to ensure it is still appropriately matched to HomeStart's overarching investment and business objectives. Actuaries undertake an annual review of projected future loan loss levels.

Provisioning

HomeStart has recognised specific and collective provisions of $19.2 million ($18.1 million in 2010-11) against its loan portfolio. These provisions have been calculated in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), which stipulate that impairment losses should be recognised only if there is objective evidence of impairment as a result of one or more loss events that occurred after the loan was initially settled.

HomeStart also maintains a general reserve for credit losses of $9.16 million ($8.80 million, 2010-11). The amount of the reserve has been determined in accordance with provisioning policies generally accepted within the finance industry prior to the adoption of AIFRS, which HomeStart believes more accurately reflect the credit risk within the portfolio. The creation of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

HomeStart wishes to emphasise that any losses in excess of the collective provision will impact on annual profit in future periods. Excess losses cannot be debited directly to the general reserve for credit losses. However, management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes a pool of capital sufficient to meet potential loan losses in the future.

Financial history table

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Financial indicators									
Operating profit ($m)	4.4	6.4	7.1	11.9	6.8	10.2	16.8	15.5	14.4
Return on Equity	3.2%	4.7%	4.95%	8.07%	8.43%	6.95%	11.41%	9.92%	9.22%
Net interest margin	1.9%	1.7%	1.3%	1.4%	0.73%	1.2%	0.94%	0.67%	0.84%
Balance sheet strength									
Capital ($m)	136.5	136	145	150	153.4	138.9	155.1	157.9	154.5
Provisions ($m)	16.4	17.8	7.71	9.3	11.8	14.0	15.4	18.1	19.2
Loan assets ($m)	818.7	1024.3	1186.2	1223.2	1258.7	1432.7	1725.2	1901.9	1954.5
RTV net assets ($m)	23.7	33.5	39.0	45.5	41.9	39.3	42.6	46.3	48.6
Net loan losses ($m)	0.02	0.02	0.01	0.02	0.01	0.07	0.04	0.13	0.54

[1]HomeStart was required to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS) for the first time in the year ended 30 June 2006

Financial contributions to the state government

$336.0 million paid to the state government since inception

Payment Type ($m)	1995[2] -2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	TOTAL
Guarantee fee	43.7	5.0	5.0	4.6	4.6	5.6	7.3	7.1	6.7	7.6	10.7	23.8	26.9	158.6
SAFA[3] admin fee	1.3	0.6	0.5	0.5	0.5	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.1	11.0
Income tax	17.4	3.0	2.1	2.5	2.6	1.4	2.0	2.9	2.3	3.3	3.4	4.7	5.2	52.8
Dividends	27.0	1.7	2.2	2.0	1.0	1.5	1.6	2.7	2.2	5.3	5.6	7.3	6.2	66.3
Capital Repatriation	25.0	3.3	2.8	3.0	4.0	3.5	3.4	2.3	0.0	0.0	0.0	0.0	0.0	47.3
Total paid	**114.4**	**13.6**	**12.6**	**12.6**	**12.7**	**12.7**	**15.1**	**15.9**	**12.1**	**17.2**	**20.8**	**36.9**	**39.4**	**336.0**

[2]No payments made prior to 1995

[3]South Australian Government Financing Authority

Account payment performance

Particulars	Number of accounts paid	Percentage of accounts paid (by number)	Value in $A of accounts paid	Percentage of accounts paid (by value)
Paid by the due date	4012	99.16%	$7 877 085	97.86%
Paid late, within 30 days of due date	24	0.59%	$151 756	1.89%
Paid more than 30 days from due date	10	0.25%	$20 386	0.25%

Corporate governance

HomeStart Finance is a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) Act 1995* and is owned by the South Australian Government.

HomeStart is subject to the control of the Minister for Housing and Urban Development and is an agency within the Department of Planning, Transport and Infrastructure.

HomeStart's approach to corporate governance is guided by legislation, guidelines issued by the Department of Premier and Cabinet, the Department of Treasury and Finance's Financial Management Framework, and Australian best practice.

Board of Management

HomeStart is administered by a seven member Board of Management. Board members are appointed by the Governor for a term not exceeding three years, and are entitled to such remuneration, allowances and expenses as determined by the Governor. The members who held office during 2011-12 are identified on page 30.

Board members are independent of the organisation and are chosen for their expertise and skills in matters related, or complementary to HomeStart's business.

The board is responsible to the Minister for Housing for overseeing HomeStart's business operations, with a particular focus on corporate accountability, strategic planning, monitoring, policy development and protecting the state government's financial and other interests in the organisation.

The following sub-committees of the board operate under individual charters and assist the board in discharging particular functions. The members of each of the sub-committees are selected for their expertise and independence.

Audit Committee

This committee is chaired by Sue Edwards and includes two other board member representatives, along with management personnel and representatives of external and internal auditors. The Audit Committee's primary responsibilities are:

- monitoring risk management processes and the status of operational risks
- reviewing the financial reporting processes and outputs
- monitoring and reviewing compliance with relevant laws and regulations
- monitoring the internal and external audit functions
- monitoring internal control processes.

Asset and Liability Committee

This committee is chaired by Jim Kouts and includes two other board member representatives, along with management personnel. The committee ensures HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset, liability and capital management practices that result in the long-term financial viability of HomeStart
- meets the South Australian Government's performance targets
- manages the Risk Transfer Vehicle in accordance with an established charter, policies and procedures
- monitors all credit and market risks.

Business planning, monitoring and accountability

The board, in conjunction with management, establishes and reviews strategic directions and objectives for the business on an annual basis, taking into account external environmental factors, commercial best practice and internal aims. These activities enable HomeStart to fulfil its purpose and deliver its long-term goals in alignment with government strategies and targets, and policy directions.

Balanced scorecard methodologies are utilised by the board on a monthly basis to monitor all key areas of HomeStart's business operations. The individual sub-committees of the board also provide feedback to the board on activities undertaken in discharging the duties under their respective charters.

HomeStart incorporates appropriate risk management standards and practices into all significant new business activities or initiatives, in line with the South Australian Government's Risk Management Policy Statement.

The board assesses the performance of the Chief Executive Officer on a regular basis against current strategic and business objectives.

Board member remuneration

Board remuneration is determined by the Governor, on the advice of the Commissioner for Public Employment. Board member remuneration information is provided at Note 12 to the financial statements.

Board member benefits

During or since the 2011-12 financial year no board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included in Note12 to the financial statements) because of a contract made with HomeStart by:

- the board member
- any organisation of which the board member is a member
- any entity in which the board member has a substantial financial interest
- an associate of the board member.

Executive appointment and remuneration

Responsibility for executive appointments rests with the Board of Management and details of executive remuneration are set out in Note 10 to the financial statements.

Risk management

HomeStart has an organisational-wide approach to managing risks to ensure they are identified and managed at all levels of our operations. Our Risk Management Policy reflects the South Australian Government Risk Management Policy Statement, relevant Treasurer's Instructions and commercial best practice.

While risk management remains the primary responsibility of the board, each board sub-committee has assigned specific roles and responsibilities in relation to risk management. The Audit Committee monitors the annual Risk Management Plan and all operational risks including a regular review of the areas of highest risk. The Asset and Liability Committee monitors all credit and market risks.

Risk management is an integral part of our everyday work and is supported by a framework that involves all employees and includes:

- identification, assessment (using Australian Standard 31 000) and recording of risks through our on-line Risk Management System (RMS)
- continuous monitoring and re-assessment of risks and internal controls, prompted by the RMS's interactive email capability and regular discussion at team and executive level
- the identification and assessment of risk incidents
- comprehensive reporting
- participation in the SAICORP Risk Management Self-Assessment and Benchmarking Program
- organisation-wide feedback on existing and emerging risks.

Strategic risk

Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise objectives, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, market context, Ministerial and government objectives as well as internal capabilities.

Credit risk

Credit risk is inherent in HomeStart's core function of lending. Lending policies are founded on sound credit risk management and behavioural intelligence, which is incorporated into each stage of a customer's loan application and ongoing loan management.

Regular and comprehensive reporting and monitoring take place to ensure that our policies result in sound lending decisions and arrears management practices. These are underpinned by credit risk systems that have been developed using a combination of theory and experience drawn from the behaviour of our customer base.

Over the 2011-12 financial year, HomeStart's arrears have remained at relatively low levels.

As at 30 June 2012, arrears levels were at 2.34% and as noted by the Chair of the board, they were generally maintained within the board's target of 2.5%.

Market risk

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's funding and interest rate risk management activities. These policies are monitored by the Asset and Liability Committee at its monthly meetings, by the Finance Sub-Committee at its weekly meetings, and daily by the General Manager, Treasury and Risk and the Corporate Treasurer. Our monitoring and forecasting is facilitated by sophisticated risk management software.

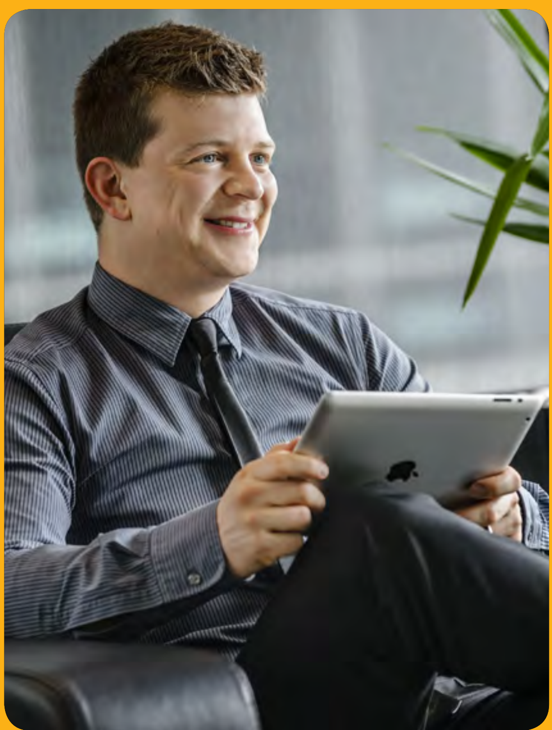
Operational risk

Operational risks are those inherent in the day-to-day functions of HomeStart. The Risk Management System (RMS) facilitates a comprehensive assessment, communication and monitoring framework for these risks and is available to all employees. Management regularly reviews its risk profiles to ensure appropriate internal controls are in place and operating effectively. Any incidents that occur are recorded in the RMS against the relevant risk, investigated, and dealt with promptly to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

To further enhance the efficiency and performance of risk management at HomeStart and to provide additional functionality in regard to compliance and breach monitoring, HomeStart has approved the purchase of the 'Tickit - On Demand' risk management system, which will replace the existing in-house developed Risk Management System. Implementation of 'Tickit - On Demand' is expected to be completed by October 2012.

HomeStart's education and training focus has allowed me to improve my skills and qualifications, which give me new tools for solving business problems.

- Ben Castles



Compliance, internal control and assurance

HomeStart's board is responsible for overseeing HomeStart's compliance performance. The Audit Committee, in its key role of assisting the board to fulfil its corporate governance objectives, is responsible for monitoring and reviewing HomeStart's compliance performance. HomeStart's organisational compliance framework supports the identification and assessment of our legal obligations and management and monitoring of our compliance responsibilities on an ongoing basis. This framework is reviewed on a regular basis to reflect any relevant legislative changes or any organisational structure and subsequent role changes.

HomeStart's board is responsible for ensuring robust and effective internal controls exist in order to minimise the risks inherent in our business. Internal controls are regularly reviewed through the risk management framework to ensure their adequacy and to identify any areas of improvement.

While fraud is a risk that we are exposed to in various areas of the business, no inappropriate activity has been identified. Strategies to prevent fraud are in place at all levels of our operations including:

- a register of financial authorisations
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation including a specific Fraud Governance Control Plan
- a strong internal culture and organisational values.

Internal and external audit

An external audit is undertaken annually by the Auditor-General of South Australia and an Independent Audit report is provided to the board. The report for this financial year can be found on page 76.

The following internal audit functions in 2011-12 were outsourced to Ernst & Young:

- operational audit based on a three-year rolling audit plan
- new lending and arrears management monthly audits of internal lending and loan manager performance.

Board members

Claude Long – Chair
Appointed May 2002

Mr Long is a Company Director and business consultant with over 40 years experience in the banking industry. Mr Long was formerly a General Manager of the Commonwealth Bank and sits on a number of government and private company boards.

Jim Kouts – Deputy Chair
Appointed November 2005

Mr Kouts is the Group Manager Corporate Affairs for IPR-GDF SUEZ Australia. He has broad commercial and governance experience across a range of industry and government sectors as a senior executive and strategist. He also is currently a strategic adviser to Adelaide Airport Limited and formerly a Director of the Electricity Supply Industry Planning Council and Deputy Chair of the Botanic Gardens of Adelaide.

Estelle Bowman
Appointed June 2005 to May 2012

Ms Bowman is a Chartered Occupational Psychologist with extensive experience in the field of management assessment and development. She is currently Managing Partner of CEConsult specialising in change management and executive development and is a member of the Public Sector Performance Commission.

Sandra De Poi
Appointed June 2005

Ms De Poi is the founder and Director of De Poi Consulting Pty Ltd. She has more than 20 years experience in consulting with the business community and insurers in the areas of workers compensation (claims management and rehabilitation), industrial relations and occupational health and safety. Ms De Poi is a Director of the WorkCover Corporation and is a Fellow of the Australian Institute Of Company of Directors (FAICD).

Lindsay Nicholson
Appointed December 2005

Ms Nicholson is a lawyer who previously practiced in the areas of personal injury and family law. She sits on the Board of the State Opera of South Australia and was formerly a Member of the Legal Practitioners' Disciplinary Tribunal.

David Garrard
Appointed March 2008

Mr Garrard is a consultant and member of the J.P. Morgan Advisory Council. He is also a member of the Investment Advisory Board of The Salvation Army, an executive coach with Global Coaching Partnership and a member of the Compliance Committee of Vinva Investment Management. He has held various positions with J.P. Morgan both in Australia and overseas.

Sue Edwards
Appointed December 2010

Ms Edwards is a Chartered Accountant and former Partner of Deloitte Touche Tohmatsu. She specialises in providing business advice, including strategy, finance and taxation and she also has experience in the management of financial institutions as a former treasury manager.

Chris Ward
Appointed June 2012

Mr Ward is a consultant with extensive and broad experience in business strategy, banking, marketing and project management. Until recently Mr Ward worked with BankSA as General Manager, Operations.

From left: Jim, David, Estelle, Claude, Lindsay, Sandra, Sue

Member	Board attendance	
	Eligible to Attend	Meetings Attended
C Long	11	10
J Kouts	11	11
E Bowman	11	10
S De Poi	11	9
L Nicholson	11	7
D Garrard	11	10
S Edwards	11	11
C Ward	-	-

Member	Audit Committee attendance	
	Eligible to Attend	Meetings Attended
C Long	*	-
J Kouts	-	-
E Bowman	-	-
S De Poi	-	-
L Nicholson	6	6
D Garrard	6	6
S Edwards	6	6
C Ward	-	-

**Claude Long may attend as an alternate member on this committee.*

Member	Asset and Liability Committee attendance	
	Eligible to Attend	Meetings Attended
C Long	*	1
J Kouts	11	10
E Bowman	11	10
S De Poi	11	6
L Nicholson	-	-
D Garrard	*	-
S Edwards	-	-
C Ward	-	-

**Claude Long or David Garrard may attend as an alternate member on this committee.*

Statutory information

Occupational health, safety, welfare & injury management system (OHSW&IM)

HomeStart places a high priority on its responsibility to provide and maintain a safe working environment and safe systems of work for all its employees, contractors, consultants, visitors and others. The elements of this commitment are integrated into HomeStart's OHSW&IM system.

Our Chief Executive Officer is committed to ensuring our OHSW&IM system is performing to expectations. General Managers, managers and supervisors are responsible for its effective implementation, monitoring and review. Employees are involved in the consultation process to support achievement of HomeStart's safety goals and targets. HomeStart continues to apply performance standards and measures that meet the 'Safety and Wellbeing in the Public Sector 2010 – 2015' strategy which embeds the Premier's Zero Harm Vision.

Sustainable commitment

The HomeStart OHSW&IM system currently captures key elements of legislative compliance, and integrates health, safety and injury management as a core business value to achieve improved performance outcomes.

The OHSW&IM system is currently being reviewed to ensure processes are up-to-date and continue to meet legislative requirements. In addition to the above, linkages to other government departments provides HomeStart with access to:

- a dedicated hotline for managers, to ensure incidents and injuries are promptly reported, enabling rehabilitation and return-to-work support and early intervention initiatives
- online training opportunities.

Evidence to support sustainable commitment to OHSW includes:

- continual promotion of flexible work practices
- access to annual Healthy Lifestyle Benefits
- focus on workplace goals and individual achievements including employee recognition programs to foster a culture of continuous learning
- cultural surveys
- regular Consultative Committee meetings to promote idea sharing and engage employees in decision making
- regular OHSW meetings.

Financial accountability

HomeStart had no workplace injury claims for the year.

Expenditure for OHSW&IM for the year amounted to approximately $25 400 and was used to achieve outcomes for safety improvement such as implementation of online employee training, purchase of ergonomic equipment and mechanical aids, electrical testing and tagging of equipment, and other OHSW&IM requirements that ensure our compliance with legislation and support our proactive approach to continuous improvement and injury prevention.

HomeStart continues to support a preventative approach by purchasing equipment for areas of higher risk for those undertaking manual tasks.

Integrated risk management

The OHSW&IM Committee provides and reports on near misses, incidents, hazards, Occupational Health and Safety (OH&S) inductions and full ergonomic workstation assessments. Any issues arising are considered further to ensure appropriate processes are in place. Regular reporting identifies trends and assists in implementing appropriate corrective treatment plans.

In addition to the above, regular risk and hazard management inspections continue to be developed and conducted, and any hazards assessed accordingly and corrected as soon as possible.

The current OHSW&IM system requires managers and employees to capture and apply risk management principles to respond to emerging trends or potential risk at the operational level.

Rigorous evaluation

Workplace inspections, incident reporting, preventative maintenance and correction actions are regularly applied to improve OHSW&IM performance. Regular learning and development opportunities are available for managers to ensure they are kept informed of changing needs, and participant evaluation is undertaken to assess and improve training content, suitability and effectiveness.

> I like that HomeStart encourages personal growth and development. It's a great place to work.
>
> **- Mutsa Tumbare**

OHSW&IM statistics

Table 1: OHS notices and corrective action taken

Number of notifiable occurrences pursuant to OHS&W Regulations Part 7 Division 6	Nil
Number of notifiable injuries pursuant to OHS&W Regulations Part 7 Division 6	Nil
Number of notices served pursuant to OHS&W Act s35, s39 and s40 (default, improvement and prohibition notices)	Nil

There were no notifiable occurrences, injuries or notices served in the past financial year.

Table 2: Agency gross workers compensation expenditure for 2011-12 compared with 2010-11

Expenditure	2011-12	2010-11	Variation + (-)	% Change + (-)
Income maintenance	$0	$203.21	(-) $203.21	(-) 100%
Lump sum settlements redemptions – Sect. 42	$0	$0	$0	-
Lump sum settlements permanent disability – Sect. 43	$0	$0	$0	-
Medical/hospital costs combined	$53.40	$1784.63	(-) $1731.23	(-) 97.0%
Other	$0	$0	$0	0%
Total claims expenditure	$53.40	$1987.84	(-) $1934.44	(-) 97.3%

Table 3: Meeting safety performance targets 2010–15 Targets Reports as at 30 June 2012

	Base: 2009-10	Performance: 12 months to end of June 2012 *			Final target
	Numbers or %	Actual	Notional quarterly target**	Variation	Numbers or %
1. Workplace fatalities	0	0	0	0	0
2. New workplace injury claims	0	0	0	0	0
3. New workplace injury claims frequency rate	0.00	0	0	0	0.00
4. Lost time injury frequency rate ***	0.00	0	0	0	0.00
5. New psychological injury claims frequency rate	0.00	0	0	0	0.00
6. Rehabilitation and return to work:					
6a. Early assessment within 2 days	0%	0%	80%	0	80%
6b. Early intervention within 5 days	0	0	0	0	90%
6c. LTI have 10 business days or less lost time	0	0%	60%	0	60%
7. Claim determination:					
7a. New claims not yet determined, assessed for provisional liability in 7 days	100%	0	75%	0%	100%
7b. Claims determined in 10 business days	0%	0%	75%	0	75%
7c. Claims still to be determined after 3 months	0	0	3%	0	3%
8. Income maintenance payments for recent injuries:					
8a. 2010-11 injuries (at 24 months development)	$0.00	$0	$0.00	$0	Below previous 2 year's average
8b. 2011-12 injuries (at 12 months development)	$0.00	$0.00	$0.00	$0.00	Below previous 2 year's average

* Except for Target 8, which is year-to-date (YTD). For Targets 5, 6c, 7b and 7c, performance is measured up to the previous quarter to allow reporting lag.

** Based on cumulative reduction from base at a constant quarterly figure.

*** Injury frequency rate for new lost-time injury/disease for each one million hours worked. This frequency rate is calculated for benchmarking and is used by the WorkCover Corporation.

Lost-time Injury frequency rate (new claims):

$$\frac{\text{Number of new cases of lost-time injury/disease for year} \times 1\,000\,000}{\text{Number of hours worked in the year}}$$

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation established by the state government in 1989 to facilitate home ownership opportunities for South Australians, with a particular focus on low to moderate income households. HomeStart operates in a commercial manner to achieve financial and other performance benchmarks that are established and agreed with the South Australian Government.

HomeStart delivers a residential mortgage lending program in conjunction with four loan managers (including BankSA, The Home Loan Centre, HomeLoans Plus and Bernie Lewis) and a broker network and other finance programs to support community housing and aged care accommodation.

Policy documents

The following policy documents are held by HomeStart Finance and are available on request free of charge:

- HomeStart home loan brochures
- HomeStart guide to fees and charges
- HomeStart Privacy Policy
- HomeStart Annual Report
- HomeStart customer newsletters.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4000. Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.

Access to personal information

Customers are entitled to obtain access to their personal information held by HomeStart in accordance with the *Freedom of Information Act 1991*.

HomeStart may deny a request for access if required, obliged or authorised to do so under any applicable law, including the *Freedom of Information Act 1991*. Any request for access to personal information must be in writing and must be sent to the Freedom of Information Officer.

HomeStart will respond to all requests for information under the Freedom of Information Act 1991 within 30 days of receipt of the request. Fees and charges may be payable.

Whistleblowers Protection Act 1993

No public interest information has been disclosed to a responsible officer of HomeStart Finance under the *Whistleblowers Protection Act 1993*.

Contractual arrangements

HomeStart has not entered into any contracts with a value greater than $4 million.

Overseas travel

No HomeStart employee made an overseas trip during 2011-12.

Consultancy expenditure 2011-12

		Number	Cost
Total consultancies below $10 000		4	$20 045
Consultancies $10 000 – $50 000	**Purpose of consultancy**		
Ernst & Young	Payroll tax, FBT and GST advice Front-End Loan System project advice		
Mercer	Human Resources evaluations and advice		
Mastertek	Salary structure model analysis		
Experience Matters	Information Technology strategic plan advice		
Total consultancies $10 000 – $50 000		4	$98 932
Total consultancies above $50 000		0	$0
Total consultancies		**8**	**$118 977**

Financial Statements

Certification of the Financial Statements
For the year ended 30 June 2012

We certify that the attached general purpose financial statements for HomeStart Finance:

- comply with relevant Treasurer's instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian accounting standards
- are in accordance with the accounts and records of HomeStart Finance; and
- present a true and fair view of the financial position of HomeStart Finance as at 30 June 2012 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by HomeStart Finance over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period and there are reasonable grounds to believe the authority will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the board members.

Claude Long
Chair
18 September 2012

Jim Kouts
Deputy Chair
18 September 2012

John Oliver
Chief Executive Officer
18 September 2012

John Comley
General Manager,
Corporate Services and
Chief Financial Officer
17 September 2012

HomeStart is a caring organisation that actively encourages all staff to maintain a healthy lifestyle.

- Alan Graham

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note no.	2012 $'000	2011 $'000
Interest income	5	142 369	135 291
Interest expense	5	(87 211)	(85 312)
Net interest income	**5**	**55 158**	**49 979**
Other income	6	17 026	14 798
Net loss from disposal of assets	7	(2)	(5)
Bad and impaired loans expense	8	(3 694)	(1 741)
Loan manager fees		(6 883)	(6 711)
Employee expenses	10	(10 278)	(9 768)
Depreciation and amortisation expense	14	(541)	(641)
Other expenses	15	(9 376)	(5 413)
Profit before income tax equivalents and guarantee fee expenses		41 410	40 498
Government guarantee fee	9	(27 003)	(24 976)
Profit before income tax equivalents		**14 407**	**15 522**
Income tax equivalents expense	2.5	(4 322)	(4 657)
Profit after income tax equivalents expense		**10 085**	**10 865**
Derivative (loss)/gain recognised directly in equity		(7 397)	3 179
Total comprehensive result		**2 688**	**14 044**

The total comprehensive result is attributable to the state government as owner.

The above Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position
As at 30 June 2012

	Note no.	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents	35.1	2 781	3 807
Financial investments designated at fair value through profit or loss	17	106 469	101 674
Financial investments – held-to-maturity	18	12 089	12 103
Loans and advances	19	1 866 809	1 817 393
Other financial assets	20	1 044	884
Property, plant and equipment	21	1 361	1 428
Intangible assets	22	1 561	283
Other assets	23	290	373
Total assets		**1 992 404**	**1 937 945**
Liabilities			
Payables	24	7 401	8 193
Derivative financial instruments	31.2.2	10 587	3 189
Short-term borrowings	25	660 364	95 800
Employee benefits	26	1 958	1 492
Income tax equivalents payable	27	2 174	3 006
Provision for dividend	28	37	203
Other liabilities	29	3 368	3 184
Long-term borrowings	25	1 152 000	1 665 000
Total liabilities		**1 837 889**	**1 780 067**
Net assets		**154 515**	**157 878**
Equity			
Reserves	30	(1 429)	5 614
Retained earnings	30	155 944	152 264
Total equity		**154 515**	**157 878**

Total equity is attributable to the state government as owner.

Unrecognised contractual commitments	33
Contingent assets and liabilities	34

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2012

	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Total $'000
Balance at 30 June 2010	**150 370**	**11 050**	**(6 369)**	**155 051**
Profit after income tax equivalents expense for 2009-10	10 865	-	-	10 865
Derivative gain recognised directly in equity	-	-	3 179	3 179
Total comprehensive result for 2010-11	**10 865**	**-**	**3 179**	**14 044**
Transfer to/from credit loss reserve	2 246	(2 246)	-	-
Transactions with state government as owner				
Dividends paid/payable	(11 217)	-	-	(11 217)
Balance at 30 June 2011	**152 264**	**8 804**	**(3 190)**	**157 878**
Profit after income tax equivalents expense for 2011-12	10 085	-	-	10 085
Derivative gain recognised directly in equity	-	-	(7 397)	(7 397)
Total comprehensive result for 2011-12	**10 085**	**-**	**(7 397)**	**2 688**
Transfer to/from credit loss reserve	(354)	354	-	-
Transactions with state government as owner				
Dividends paid/payable	(6 051)	-	-	(6 051)
Balance at 30 June 2012	**155 944**	**9 158**	**(10 587)**	**154 515**

Total equity is attributable to the state government as owner.
The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2012

	Note no.	2012 $'000	2011 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		83	79
Investments		724	709
Loans and advances		139 427	132 040
Fees and commissions received		730	978
Bad debts recovered		149	272
EquityStart grant received		810	650
Community Service Obligation subsidy received		9 544	4 475
Other		498	2 187
Total cash inflows from operating activities		**151 965**	**141 390**
Cash outflows			
Payments to employees		(9 984)	(9 924)
Payments to suppliers		(5 618)	(5 331)
Payments to loan managers		(6 590)	(6 622)
Borrowing costs paid		(88 059)	(84 432)
Government guarantee fee paid		(26 919)	(23 795)
Income tax equivalents paid		(5 154)	(4 665)
Total cash outflows from operating activities		**(142 324)**	**(134 769)**
Net cash provided by operating activities	35.2	**9 641**	**6 621**

Statement of Cash Flows

For the year ended 30 June 2012

	Note no.	2012 $'000	2011 $'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment	7	5	12
Proceeds from maturity of held to maturity investments		9 000	8 260
Proceeds from investments designated at fair value through profit or loss		19 236	-
Shared appreciation components of Breakthrough Loan repaid	32.4	4 417	4 049
Customer loans repaid		237 680	193 946
Total cash inflows from investing activities		**270 338**	**206 267**
Cash outflows			
Payments for property, plant and equipment		(335)	(312)
Payments for software		(1 424)	-
Payments for held-to-maturity investments		(8 925)	-
Payments for investments designated at fair value through profit or loss		(20 118)	(9 621)
Shared appreciation component of Breakthrough Loan settled	32.4	(10 551)	(12 134)
Customer loans settled		(284 999)	(357 696)
Total cash outflows from investing activities		**(326 352)**	**(379 763)**
Net cash used in investing activities		**(56 014)**	**(173 496)**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		1 521 564	1 455 000
Total cash inflows from financing activities		**1 521 564**	**1 455 000**
Cash outflows			
Dividend paid		(6 217)	(7 329)
Repayment of borrowings		(1 470 000)	(1 279 134)
Total cash outflows from financing activities		**(1 476 217)**	**(1 286 463)**
Net cash provided by financing activities		**45 347**	**168 537**
Net (decrease)/increase in cash and cash equivalents		**(1 026)**	**1 662**
Cash and cash equivalents at the beginning of the financial year	3 807	2 145	
Cash and cash equivalents at the end of the financial year	35.1	**2 781**	**3 807**

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

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Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

NOTE 1
Objectives of HomeStart Finance

HomeStart was established as a statutory corporation under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*. It reports to the Minister for Housing and Urban Development.

HomeStart's vision is to make home ownership a reality for more people in more ways.

HomeStart Home Loan

HomeStart provides home loans to low to moderate income households and other needs groups with repayments linked to income and the Consumer Price Index (CPI). The HomeStart Home Loan is the principal loan product. The outstanding value of HomeStart Home Loans at 30 June 2012 was $1818.5 million ($1768.9 million, 2010-11).

Subsidies

HomeStart provides subsidised Advantage Loans of up to $30 615 to lower income earners. The Advantage Loan is interest free if it is repaid within five years. The Advantage Loan interest is calculated by reference to the CPI but this interest is waived if the Advantage Loan is repaid in full prior to its 5th anniversary. As at 30 June 2012 the interest rate applying to Advantage Loans was 1.23% (2.20%, 2010-11). The outstanding value of Advantage Loans at 30 June 2012 was $44.8 million ($43.1 million, 2010-11).

For the year ended 30 June 2012 HomeStart received a Community Service Obligation (CSO) subsidy payment of $2.68 million ($2.51 million, 2010-11) from the Department of Treasury and Finance for the Advantage Loan subsidy provided. HomeStart also provides subsidised EquityStart Loans of up to $50 000 to current public housing tenants. The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI. Regular repayments on the EquityStart Loan are optional, and payment can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2012 was $ 39.7 million ($40.3 million, 2010-11). HomeStart received grant funding from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans.

HomeStart also has loans at concessional interest rates through the City Living Access Loan, Home Ownership Made Easier (H.O.M.E) and Rental Purchase schemes.

Funding

HomeStart funds its mortgage activities from capital and by borrowing from the South Australian Government Financing Authority (SAFA).

NOTE 2
Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

HomeStart's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial assets at fair value through profit or loss; financial instruments classified as available-for-sale; and subsidised loans and advances.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The financial statements have been prepared based on a twelve month period and presented in Australian currency.

2.1.1 Changes in accounting policies

HomeStart did not voluntarily change any of its accounting policies during 2011-12.

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by HomeStart for the period ended 30 June 2012. HomeStart has assessed the impact of the new and amended standards and interpretations and except for AASB 9 *Financial Instruments* considers there will not be a material impact on the accounting policies or the financial statements of HomeStart. AASB 9 becomes mandatory for HomeStart's financial statements for the year ended 30 June 2014 and could change the classification and measurement of financial assets. The extent of the impact has not been determined.

2.1.2 Estimates and assumptions

The preparation of financial statements in conformity with Australian Accounting Standards requires HomeStart to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.2 Statement of compliance

These financial statements are general purpose financial statements. The accounts have been prepared in accordance with applicable Australian Accounting Standards, and comply withTreasurer's Instructions and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987 (PFAA)*.

2.3 Comparative figures

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific Accounting Policy Statement or an Australian Accounting Standard has required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard, comparative information has been reclassified and disclosed where required.

Where it has been impractical to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

2.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000).

2.5 Taxation

In accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, HomeStart is required to pay to the state government an income tax equivalent. The income tax equivalents liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate of 30% (30%, 2010-11) be applied to profit from continuing operations before income tax equivalents.

HomeStart is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

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

- the amount of GST incurred by HomeStart as a purchaser is not recoverable from the Australian Taxation Office (ATO)
- receivables and payables are stated with the amount of GST included.

HomeStart, being a provider of financial services, is classified as an input taxed entity for GST purposes and consequently absorbs GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

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

2.6 Income

Income is recognised in HomeStart's Statement of Comprehensive Income when and only when it is probable that the flow of economic benefits to the entity will occur and can be reliably measured.

2.6.1 Interest income – non-subsidised loans

Interest income is recognised as it accrues using the effective interest rate method.

2.6.2 Interest income – subsidised loans

Where HomeStart provides subsidised loans, such as Advantage Loans and EquityStart Loans, at rates lower than market interest rates, the initial recognition of these loans at fair value will result in an initial loss being generated in the Statement of Comprehensive Income, being the difference between the amount disbursed and the fair value. Fair value is measured by discounting the expected cash flows using a market interest rate.

Interest income on these subsidised loans is brought to account using the effective interest method at a risk-free rate of interest, based on four year (for Advantage Loans) and ten year (for EquityStart Loans) South Australian Government Financing Authority (SAFA) Bonds.

2.6.3 Interest income – both non-subsidised and subsidised impaired loans

Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

Loans are assessed as impaired where they are contractually more than 90 days overdue with security insufficient to cover principal and arrears of interest, or where there is doubt as to the full recovery of principal and interest.

An impaired item may be restored to accrual status only if all arrears have been eliminated by payments from the customer, and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

2.6.4 Loan origination fees received or receivable

Income directly attributable to the origination of loans is deferred and recognised in the Statement of Comprehensive Income as part of the effective interest rate calculation. This method results in origination income being recognised over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.6.5 Government grants

Grants from the state government are recognised at their fair value where there is a reasonable assurance that the grant will be received and HomeStart will comply with all attached conditions.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax return on equity (ROE) of 9% (if required). The first such payment was received by HomeStart in the financial year ended 30 June 2012.

HomeStart also receives grant funds from the Department for Families and Communities to compensate HomeStart for costs incurred in relation to EquityStart Loans.

Government grants relating to costs are deferred and recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

2.6.6 Investment income

For financial investments designated as fair value through profit or loss, changes in fair value of investments (both realised and unrealised) are recognised in the Statement of Comprehensive Income as they occur.

Distribution income is recognised when received.

For financial investments classified as held-to-maturity, interest income is recognised as it accrues.

2.6.7 Disposal of non-financial assets

Income from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and determined by comparing proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as income or an expense.

2.6.8 Other income

Other income is recognised when earned or recovered and is measured at the fair value of the consideration received or receivable.

2.7 Expenses

Expenses are recognised in HomeStart's Statement of Comprehensive Income when and only when it is probable that the flow of economic benefits from the entity will occur and can be reliably measured.

2.7.1 Interest expense

Interest payable is expensed in accordance with the accounting policy described at note 2.14.

2.7.2 Government guarantee fee

The government guarantee fee is expensed as it becomes due at the rate imposed by the Department of Treasury and Finance.

2.7.3 Bad and impaired loans expense

Bad and impaired loans are expensed in accordance with the accounting policy described in note 2.11.

2.7.4 Loan origination fees paid or payable

Fees directly attributable to the origination of loans are deferred and recognised in the Statement of Comprehensive Income as part of the effective interest rate calculation. This method results in origination fees being expensed over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.7.5 Employee expenses

Employee expenses are recognised in accordance with the accounting policy described at note 2.17.

2.7.6 Depreciation and amortisation expense

Depreciation and amortisation expense is recognised in accordance with the accounting policy described at note 2.15.4.

2.7.7 Operating lease expense

Operating lease payments are charged to the Statement of Comprehensive Income on a basis which is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by HomeStart in respect of operating leases has been recorded as a reduction of rental expense over the lease term, on a straight line basis.

2.7.8 Tax equivalents expense

The tax equivalents expense is recognised in accordance with the accounting policy described at note 2.5.

2.8 Assets and liabilities

Assets and liabilities are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Current and non-current classes are not presented separately.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Cash is measured at its nominal value.

2.10 Financial instruments

During the current and comparative financial years HomeStart had the following types of financial instruments:

- cash and cash equivalents (refer to accounting policy note 2.9)
- loans and advances (refer to accounting policy note 2.11)
- investments (Unit Trusts, SAFA Cash Management Fund, bonds, bank bills, term deposits and the shared appreciation component of Breakthrough Loans (refer to accounting policy note 2.12)
- derivative financial instruments (refer to accounting policy note 2.13)
- financial liabilities (refer to accounting policy note 2.14).

Under AASB 139, financial instruments are required to be classified into one of five categories which will, in turn, determine the accounting treatment of the financial instrument. The classifications are:

- loans and receivables – initially measured at fair value and then at amortised cost using the effective interest rate method
- held-to-maturity financial assets – measured at amortised cost
- financial instruments designated at fair value through profit or loss – measured at fair value
- available for sale financial assets – measured at fair value
- financial liabilities (not at fair value through profit or loss) – measured at amortised cost.

The classification depends on the purpose for which the financial instruments were acquired.

Loans and receivables

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that HomeStart has the positive intention and ability to hold to maturity.

As at 30 June 2012 HomeStart held bank bills as well as investment bonds issued by state government and non-government institutions.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if so designated by HomeStart. HomeStart's policy is to designate a financial asset at fair value through profit or loss if it is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investments strategy, and information about the financial asset is provided internally on that basis to HomeStart's key management personnel.

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in unit trusts, the SAFA Cash Management Fund and term deposits as financial assets at fair value through profit or loss.

Derivatives are also categorised as financial assets at fair value through profit or loss unless they are effective hedges of cash flows.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

HomeStart does not have any available for sale financial assets.

Financial liabilities

HomeStart's short-term and long-term borrowings are financial liabilities.

Impairment

HomeStart assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The recoverable amount of HomeStart's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

An impairment loss in respect of held-to-maturity securities or loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reference should be made to accounting policy note 2.11 for additional information in relation to the assessment of impairment of loans and receivables.

2.11 Loans and advances

Loans measured at amortised cost

Loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses.

For subsidised loans, fair value is less than their face value. On settlement of subsidised loans an initial loss is recognised as an expense, being the difference between the face and fair values, which is then recognised as income over the expected life of the loan, using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows, HomeStart considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Provision for impairment

HomeStart assesses at each financial year-end whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the end of the financial year ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Loans and advances are individually assessed for impairment. If HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, geographical location, collateral, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of projected cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, HomeStart uses its experienced judgement to estimate the amount of an impairment loss.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to take into consideration HomeStart's actual loss experience.

For loans and receivables, the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using a provision account and the amount of the loss is included in the Statement of Comprehensive Income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 by adjusting the provision account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. This reserve represents the difference between the impairment provisions calculated under AIFRS and that determined under the former Australian Generally Accepted Accounting Principles (AGAAP), net of income tax equivalents. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

Bad debts

All bad debts are written-off in the period in which they are classified as not recoverable. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

2.12 Investments

Held-to-maturity investments

As at 30 June 2012 HomeStart held investment bonds with a face value of $12.0 million ($12.0 million, 2010-11) issued and/or guaranteed by the Commonwealth and state governments.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity where HomeStart has the positive intention and ability to hold to maturity.

Investments that are intended to be held-to-maturity are stated at amortised cost using the effective interest rate method less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in the Statement of Comprehensive Income when the investments are de-recognised or impaired.

Investments at fair value through profit or loss

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in unit trusts, the SAFA Cash Management Fund and term deposits as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

Shared appreciation component of the Breakthrough Loan

The Breakthrough Loan facility includes two loan components:

- a standard loan component with standard interest rates and repayments which operate under identical terms to HomeStart's current standard loan product. This portion of the Breakthrough Loan is recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses; and
- a shared appreciation component where repayment of the loan balance is generally deferred until sale of the property upon which time the loan balance is repaid along with a scheduled percentage of the appreciated value of the property.

The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

2.13 Derivative financial instruments

HomeStart is exposed to changes in interest rates arising from financing activities, and it uses derivatives to hedge this risk. Derivative financial instruments are not held for speculative purposes.

HomeStart does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at cost and subsequent to initial recognition are stated at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows determined using the yield curve at year-end.

HomeStart designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or hedges of highly probable forecast transactions (cash flow hedges). For the current reporting and comparative periods HomeStart has only cash flow hedges.

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. HomeStart also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 31.2.2. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in equity in the derivatives valuation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income.

Effectiveness tests are performed on all derivative financial instruments to determine if they are still providing the protection originally intended when entered into by HomeStart. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in equity is reversed through the Statement of Comprehensive Income with all subsequent gains or losses recognised through the Statement of Comprehensive Income.

2.14 Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost with any difference between the interest-bearing cost and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on the effective interest rate basis.

2.15 Non-financial assets

2.15.1 Property, plant and equipment

Assets are recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition, less accumulated depreciation (refer to note 2.15.4) and impairment losses. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Statement of Financial Position. If, however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recorded at the value recorded by the transferor prior to transfer.

At the expiration of the lease of its office accommodation, HomeStart is required by the lease agreement to return the premises to its original condition ("make good"). The costs involved in doing so have been included in the cost of HomeStart's leasehold improvements. This amount has been calculated as an estimate of future costs and discounted to a present value. HomeStart capitalises all non-current tangible assets with a value of $500 or greater.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2.15.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are recorded at cost less accumulated amortisation (refer to note 2.15.4).

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*, and when the amount of expenditure is greater than or equal to $500.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the finite life of the asset, with a maximum time limit for amortisation of four years.

Costs in relation to website development are charged as expenses in the period in which they are incurred, unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are considered to be expenses.

Costs involved in building or enhancing a website to the extent they represent probable future economic benefits controlled by HomeStart that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits.

2.15.3 Impairment and revaluation

In accordance with Accounting Policy Framework III Asset Accounting Framework:

- all tangible assets are valued at written down current cost (a proxy for fair value)
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than $1 million and estimated useful life is greater than three years.

If at any time HomeStart considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

All tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's 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. 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.

Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.15.4 Depreciation and amortisation of non-financial assets

All non-financial assets, having a limited useful life, are systematically depreciated or amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to physical assets such as office and computer equipment.

The useful lives of all major assets held by HomeStart are reassessed on an annual basis.

The value of leasehold improvements is amortised over the estimated useful life of each improvement.

Depreciation and amortisation of non-current assets for current and comparative period is determined as follows:

Class of asset	Depreciation method	Useful life (years)
Leasehold improvements	Straight line	10
Other office and computer equipment	Straight line	2 – 10
Intangible assets	Straight line	4

2.16 Payables

Payables include creditors, accrued expenses, employment on-costs, interest, guarantee fee and loan manager fees.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of HomeStart.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

All payables are measured at their nominal amount and are normally settled within 30 days from the date the invoice is first received (in accordance with Treasurer's Instruction 11 Payment of Creditors' Accounts).

2.17 Employee benefits

2.17.1 Long-term service benefits

An actuarial assessment of long service leave liability undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using a short-hand method was not materially different from the liability measured using a present value of expected future payments. Based on this actuarial assessment, the short-hand method was used to measure the long service leave liability for 2012. Refer to Note 26. This calculation is consistent with the HomeStart's experience of employee retention and leave taken.

2.17.2 Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for salaries, annual leave and sick leave that are expected to be settled within twelve months of the reporting date and represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration salary rates that HomeStart expects to pay as at reporting date.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The annual leave liability is expected to be payable within twelve months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than twelve months, the liability will be measured at present value.

HomeStart makes contributions to several state government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board and various externally managed superannuation schemes.

2.18 Insurance

HomeStart has arranged, through SAFA, SAICORP division, to insure all major risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held.

2.19 Accounting judgements, estimates and assumptions

The preparation of the financial statements requires the use of certain accounting estimates and requires HomeStart to exercise its judgement in the process of applying HomeStart's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The areas involving a higher degree of estimate and judgement that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual financial reporting period are outlined hereafter. References to relevant notes within the financial statements are also provided.

Area of estimate and judgement	Note references
Investments at fair value through profit or loss (excluding the shared appreciation component of Breakthrough Loans)	2.12, 32.2(c), 32.3
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough Loan	2.12, 32.2(d), 32.3
Fair value of subsidised loans and advances	2.6.2
Deferred loan fee income	2.6.4
Deferred loan fee expense	2.7.4
Provision for impairment of loans and advances	2.11
Unearned income (EquityStart grant)	2.6.5, 29
General reserve for credit losses	2.11, 30
Derivative financial instruments	2.13, 32.2(a)

NOTE 3 Government/non-government disclosures

In accordance with Accounting Policy Framework II *General Purpose Financial Statements Framework*, Accounting Policy Statement 4.1 *Explanatory Notes*, HomeStart has included details of income, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the state government in the notes to the accounts.

NOTE 4 Segment reporting

HomeStart operates in one geographical segment (South Australia) and its principal activity is the provision of home finance to lower income groups.

NOTE 5 Net interest income

Interest received/receivable from entities external to the state government	**2012 $'000**	**2011 $'000**
Loans and advances	136 714	130 410
Subsidised loans effective interest income	3 970	3 935
Subsidised loans fair value expense	(1 164)	(1 812)
Loan origination income amortisation	2 767	2 680
Deposits with banks	82	78
Total interest received/receivable from entities external to the state government	**142 369**	**135 291**
Interest paid/payable to entities within the state government		
Borrowings from SAFA	(87 211)	(85 312)
Total interest paid/payable to entities within the state government	**(87 211)**	**(85 312)**
Net interest income	**55 158**	**49 979**

Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. HomeStart has recognised interest income of $1.86 million ($2.14 million, 2010-11) on impaired loans. This interest has been included in the assets' carrying amounts when determining the amount of impairment loss to be included in the Statement of Comprehensive Income (refer to notes 2.6 and 2.11).

NOTE 6 Other income

Other income received/receivable from entities external to the state government	**2012 $'000**	**2011 $'000**
Fees and charges	3 552	3 577
Bad debts recovered	276	272
Unrealised change in fair value of loans	-	1 349
Realised change in fair value of loans	305	570
Managed funds distribution	433	472
Unrealised change in fair value of investments	75	31
Interest on fair valued investments	444	-
Realised change in fair value of investments	48	388
Interest received from held-to-maturity investments	711	679
Other	74	68
Total other income received/receivable from entities external to the state government	**5 918**	**7 406**
Other income received/receivable from entities within the state government		
Managed funds distribution	829	849
EquityStart grant	844	1 679
Community Service Obligation (CSO) subsidy	9 117	4 475
Other	318	389
Total other income received/receivable from entities within the state government	**11 108**	**7 392**
Total other income	**17 026**	**14 798**

EquityStart grant funds and CSO subsidy received

During the financial year, HomeStart received $0.8 million ($0.6 million, 2010-11) in grant funds from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans. Refer to note 29.2 for information in relation to the recognition of EquityStart grant income.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loan and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax return on equity (ROE) of 9% (if required). The first such payment was received by HomeStart in the financial year ended 30 June 2012.

NOTE 7 Net loss from dispoal of assets

	2012 $'000	2011 $'000
Proceeds from disposal of assets	5	12
Net book value of assets disposed	(7)	(17)
Total net loss from disposal of assets	**(2)**	**(5)**

NOTE 8 Bad and impaired loans expense

	2012 $'000	2011 $'000
Bad and impaired loans expensed	536	127
Increase in provision for impairment	3 158	1 614
Total bad and impaired loans expense	**3 694**	**1 741**

NOTE 9 Government guarantee fee

	2012 $'000	2011 $'000
Government guarantee fee paid or payable to entity within the state government	27 003	24 976
Total government guarantee fee paid to entity within the state government	**27 003**	**24 976**

HomeStart paid a guarantee fee of 1.5% of outstanding borrowings to the Department of Treasury and Finance in 2011-12 (1.5%, 2010-11).

NOTE 10 Employee expenses, remuneration and number of employees

	2012 $'000	2011 $'000
Salaries and wages	8 479	8 272
Long service leave	481	(17)
Annual leave	35	49
Employment on-costs – superannuation	783	712
Employment on-costs – other	235	487
Board fees	265	265
Total employee expenses	**10 278**	**9 768**

Remuneration of employees	**2012 No.**	**2011 No.**
The number of employees whose remuneration received or receivable falls within the following bands:		
$134 000 to $143 999	2	3
$144 000 to $153 999	1	-
$154 000 to $163 999	2	-
$164 000 to $173 999	-	1
$184 000 to $193 999	1	-
$214 000 to $223 999	-	1
$224 000 to $233 999	1	-
$234 000 to $243 999	-	1
$244 000 to $253 999	1	2
$254 000 to $263 999	1	-
$304 000 to $313 999	-	1
$324 000 to $333 999	1	-
Total number of employees	**10**	**9**

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, payments in lieu of leave, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was $2.01 million ($1.86 million, 2010-11).

Number of employees

HomeStart employed 107 people at the end of the reporting period (103, 2010-11).

NOTE 11 Key management personnel disclosures

The following employees held authority and responsibility for planning, directing and controlling the activities of HomeStart for the entire financial year:

- John Oliver (Chief Executive Officer)
- John Comley (General Manager Corporate Services and Chief Financial Officer)
- Ian Wheaton (General Manager Treasury & Risk)
- John Rolfe (General Manager Retail)
- Deborah Dickson (General Manager People and Strategy).

Key management personnel compensation

The compensation of the above key management personnel included in "employee expenses" (see note 10) is as follows:

	2012 $	2011 $
Short-term employee benefits	1 181 844	1 240 572
Long-term employee benefits (long service leave)	29 256	14 215
Long-term employee benefits (amounts paid to superannuation plans)	79 108	83 511
Total key management personnel compensation	**1 290 208**	**1 338 298**

NOTE 12 Related parties

All transactions between HomeStart and related parties are on arms length terms and conditions.

During the financial year HomeStart undertook transactions with the following related parties. The nature and amounts of these transactions have been disclosed throughout the financial statements.

- employees who are key management personnel
- board members
- Department for Families and Communities
- Department for Communities and Social Inclusion
- Department of Planning, Transport and Infrastructure
- Department of Treasury and Finance
- South Australian Government Financing Authority (SAFA).

Board members

The following persons were members of the Board of HomeStart during the whole of the financial year:

- Claude Long (Chair)
- Jim Kouts (Deputy Chair)
- Sandra De Poi
- Sue Edwards
- David Garrard
- Lindsay Nicholson.

Estelle Bowman was a member of the Board of HomeStart from the start of the financial year until her term expired on 13 June 2012.

Chris Ward was a member of the Board of HomeStart from his appointment on 28 June 2012 until the end of the financial year.

Board members' remuneration

The remuneration of the Board of HomeStart included in "employee expenses" (see note 10) is as follows:

	2012 $	2011 $
Short-term benefits (note 10)	265 453	264 680
Long-term employee benefits (amounts paid to superannuation plans)	23 891	23 821
Total board members' remuneration	**289 344**	**288 501**

The number of HomeStart board members whose remuneration received or receivable falls within the following bands:

	2012 No.	2011 No.
$20 000 - $29 999	-	2
$30 000 - $39 999	4	-
$40 000 - $49 999	2	5
$50 000 - $59 999	1	1
Total number of board members	**7**	**8**

Apart from the details disclosed in this note, no board member has entered into a contract with HomeStart since the end of the previous financial year and there were no contracts involving board members' interests existing at year-end.

NOTE 13 Economic dependency

HomeStart has an economic dependency on the following suppliers of services:

Financing services

SAFA is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a significant proportion of its loan management services to BankSA, The Home Loan Centre, HomeLoans Plus and Bernie Lewis.

NOTE 14 Depreciation and amortisation expense

Depreciation	2012 No.	2011 No.
Other office and computer equipment	189	244
Total depreciation	**189**	**244**
Amortisation		
Leasehold improvements	206	199
Intangible assets	146	198
Total amortisation	**352**	**397**
Total depreciation and amortisation	**541**	**641**

NOTE 15 Other expenses

Other expenses arising from transactions with entities within the state government	**2012 No.**	**2011 No.**
External auditor's remuneration	154	151
Insurance	77	82
Total other expenses arising from transactions with entities within the state government	**231**	**233**
Other expenses arising from transactions with entities external to the state government		
Unrealised change in fair value of loans [1]	3 603	-
Office accommodation (minimum lease payments)	826	797
Marketing, product development and advertising	1 009	994
Internal audit fees	294	326
Loan administration	200	157
Information technology	532	515
Consultants' fees	119	120
Human resources and staff development	615	578
Other	1 947	1 693
Total other expenses arising from transactions with entities external to the state government	**9 145**	**5 180**
Total other expenses	**9 376**	**5 413**

The number and dollar amount of consultancies paid/payable that fell within the following bands:	**No**	**2012 $'000**	**No**	**2011 $'000**
Below $10 000	4	20	3	16
Between $10 000 and $50 000	4	99	2	46
Above $50 000	-	-	1	58
Total paid/payable to the consultants engaged	**8**	**119**	**6**	**120**

[1] The shared appreciation component of the Breakthrough Loan is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. The losses arising from changes in fair value are unrealised.

NOTE 16 Auditor's remuneration

	2012 $'000	**2011 $'000**
Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	154	151
Total audit fees – state government entities	**154**	**151**

The amounts disclosed above are inclusive of GST.

Other services
No other services were provided by the Auditor-General's Department.

NOTE 17 Financial investments designated at fair value through profit or loss

17.1 Financial investments designated at fair value through profit or loss Financial investments designated at fair value through profit or loss with entity within the state government

	2012 $'000	2011 $'000
SAFA Cash Management Fund	6 583	24 944
Total financial investments designated at fair value through profit or loss with entity within the state government	**6 583**	**24 944**
Financial investments at fair value through profit or loss with entities external to the state government		
Term Deposits	20 118	-
Unit Trusts	9 521	9 014
Breakthrough Loan (shared appreciation component)	70 247	67 716
Total financial investments designated at fair value through profit or loss with entities external to the state government	**99 886**	**76 730**
Total financial investments designated at fair value through profit or loss	**106 469**	**101 674**

17.2 Maturity profile of HomeStart's financial investments designated at fair value through profit or loss

	2012 $'000	2011 $'000
At call	16 104	33 958
Not longer than 3 months	4 000	-
Longer than 3 months and not longer than 12 months	16 118	-
Longer than 12 months and not longer than 5 years	-	-
Longer than 5 years	70 247	67 716
Total investments designated at fair value through profit or loss	**106 469**	**101 674**

17.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 31.4.3.

NOTE 18 Financial investments – held-to-maturity

18.1 Financial investments – held-to-maturity

	2012 $'000	2011 $'000
Financial investments – held-to-maturity with entities external to the state government		
Bonds	12 089	12 103
Total financial investments – held-to-maturity	**12 089**	**12 103**

18.2 Maturity profile of HomeStart's financial investments – held-to-maturity

	2012 $'000	2011 $'000
At call	-	-
Not longer than 3 months	-	-
Longer than 3 months and not longer than 12 months	-	1 003
Longer than 12 months and not longer than 5 years	9 034	7 053
Longer than 5 years	3 055	4 047
Total financial investments – held-to-maturity	**12 089**	**12 103**

18.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 31.4.3.

NOTE 19 Loans and advances

19.1 Loans and advances

	2012 $'000	2011 $'000
Primary loans	1 818 512	1 769 628
Subsidised loans	86 418	84 940
Gross loans and advances	**1 904 930**	**1 854 568**
Fair value adjustment	(16 050)	(16 180)
Deferred loan fee income	(5 586)	(5 898)
Deferred loan fee expense	2 732	3 033
Specific provisions for impairment	(9 247)	(8 222)
Collective provision for impairment	(9 970)	(9 908)
Net loans and advances	**1 866 809**	**1 817 393**
Specific provision for impaired loans		
Opening balance	8 222	8 007
Bad debts written-off	(2 070)	(842)
Impairment expense	3 095	1 057
Closing balance	**9 247**	**8 222**
Collective impairment provision		
Opening balance	9 908	9 351
Impairment expense	62	557
Closing balance	**9 970**	**9 908**
Total provision for impairment	**19 217**	**18 130**

19.2 Risk exposures

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided in note 31.2.1.

NOTE 20 Other financial assets

	2012 $'000	2011 $'000
Other financial assets – entities within the state government		
Accrued financial investment income	22	68
EquityStart grant receivable	121	170
Other	31	66
Total other financial assets – entities within the state government	**174**	**304**
Other financial assets – entities external to the state government		
Deferred financial investment income	146	136
Accrued interest on housing loans and advances	348	384
Accrued interest on cash at bank	5	6
Accrued financial investment income	325	-
GST recoverable	45	48
Other	1	6
Total other financial assets – entities external to the state government	**870**	**580**
Total other financial assets	**1 044**	**884**

NOTE 21 Property, plant and equipment

	2012 $'000	2011 $'000
Leasehold improvements		
Leasehold improvements at cost	2 202	2 154
Accumulated depreciation	(1 392)	(1 186)
Total leasehold improvements	**810**	**968**
Other office and computer equipment		
Other office and computer equipment at cost	3 093	2 978
Accumulated depreciation	(2 542)	(2 518)
Total other office and computer equipment	**551**	**460**
Total property, plant and equipment	**1 361**	**1 428**

	Leasehold improvements $'000	Other office and computer equipment $'000	Total
Carrying amount at 30 June 2010	**1 124**	**501**	**1 625**
Additions	43	220	263
Disposals – at cost	-	(265)	(265)
Disposals – accumulated depreciation	-	248	248
Depreciation and amortisation	(199)	(244)	(443)
Carrying amount at 30 June 2011	**968**	**460**	**1 428**
Additions	48	287	335
Disposals – at cost	-	(172)	(172)
Disposals – accumulated depreciation	-	165	165
Depreciation and amortisation	(206)	(189)	(395)
Carrying amount at 30 June 2012	**810**	**551**	**1 361**

NOTE 22 Intangible assets

	2012 $'000	2011 $'000
Software at cost	2 875	1 451
Accumulated amortisation	(1 314)	(1 168)
Total software	**1 561**	**283**
Carrying amount at 1 July 2011	**283**	**481**
Additions	1 424	-
Disposals	-	-
Amortisation	(146)	(198)
Carrying amount at 30 June 2012	**1 561**	**283**

All intangible assets were acquired externally directly from software suppliers or through contract arrangements.

NOTE 23 Other assets

	2012 $'000	2011 $'000
Other assets – entities within the state government		
Prepayments	-	4
Total other assets – entities within the state government	**-**	**4**
Other assets – entities external to the state government		
Prepayments	290	369
Total other assets – entities external to the state government	**290**	**369**
Total other assets	**290**	**373**

NOTE 24 Payables

24.1 Payables

	2012 $'000	2011 $'000
Payables to entities within the state government		
Creditors	-	5
Accrued administration expenses	165	160
Employment on-costs	326	426
Accrued interest payable on borrowings	3 614	4 525
Accrued interest payable on derivatives	194	131
Accrued guarantee fee payable	2 232	2 148
Total payables to entities within the state government	**6 531**	**7 395**
Payables to entities external to the state government		
Creditors	289	212
Accrued administration expenses	106	103
Accrued loan manager fees	475	483
Total payables to entities external to the state government	**870**	**798**
Total payables	**7 401**	**8 193**

24.2 Settlement profile of HomeStart's payables

All payables will be settled within 12 months of the reporting date.

NOTE 25 Borrowings

	2012 $'000	2011 $'000
25.1 Interest bearing liabilities		
Short-term borrowings payable to entity within the state government		
Short-term borrowings	660 364	95 800
Total short-term borrowings payable to entity within the state government	**660 364**	**95 800**
Long-term borrowings payable to entity within the state government		
Long-term borrowings	1 152 000	1 665 000
Total long-term borrowings payable to entity within the state government	**1 152 000**	**1 665 000**
Total interest bearing liabilities	**1 812 364**	**1 760 800**

25.2 Security

All HomeStart borrowings are unsecured.

25.3 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 31.3 and 31.4 respectively.

NOTE 26 Employee benefits

26.1 Employee benefits

	2012 $'000	2011 $'000
Accrued salaries	8	57
Annual leave	634	599
Long service leave	1 316	836
Total employee benefits	**1 958**	**1 492**

26.2 Aggregate employee benefits

	2012 $'000	2011 $'000
Accrued salaries		
On-costs	54	61
Provision for employee benefits	8	57
Total accrued salaries	**62**	**118**
Annual leave		
On-costs	88	84
Provision for employee benefits	634	599
Total annual leave	**722**	**683**
Long service leave		
On-costs	184	116
Provision for employee benefits	1 316	836
Total long service leave	**1 500**	**952**
Total employment on-costs (note 24)	326	426
Less: On-costs not related to current employee benefits	-	(165)
Total provision for employee benefits	1 958	1 492
Total employee benefits and related on-costs	**2 284**	**1 753**

26.3 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability. It is accepted practice to estimate the present values of future cash outflows associated with the long service leave liability by using a short-hand measurement technique. The short-hand measurement technique takes into account such factors as changes in discount rates and salary inflation.

AASB 119 requires the use of the yield on long term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long term Commonwealth Government bonds has decreased from 5.25% in 2011 to 3.00% in 2012.

This significant decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in a significant increase in the reported long service leave liability.

The net financial effect of the changes in the current financial year is an increase in the long service leave liability of $346 000, employment on-costs payable of $49 000 and employee expenses of $395 000. The impact on future periods is impracticable to estimate as the benchmark is calculated using a number of factors and assumptions – a key assumption is the long-term discount rate. With current conditions, the long-term discount rate is experiencing significant movement.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4 percent. As a result, there is no net financial effect resulting from changes in the salary inflation rate.

26.4 Settlement period of long service leave

HomeStart policy allows any employee who has completed seven years of continuous service to:

- have their long service leave entitlements paid to them on leaving HomeStart, as part of their termination payment
- take pro-rata long service leave
- "cash out" a proportion of their long service leave, in lieu of taking the leave.

HomeStart therefore does not have an unconditional right to defer settlements of the long service leave liability for at least twelve months after the reporting date.

NOTE 27 Income tax equivalents payable

	2012 $'000	2011 $'000
Income tax equivalents payable to entity within the state government	2 174	3 006
Total tax equivalents liability payable to entity within the state government	**2 174**	**3 006**

NOTE 28 Provision for dividend

	2012 $'000	2011 $'000
Dividend payable to entity within the state government	37	203
Total dividend payable to entity within the state government	**37**	**203**

Pursuant to Section 26 of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart must recommend to the Minister for Housing and Urban Development, that it pay a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Minister may, in consultation with the Treasurer, by notice to HomeStart approve its recommendation or determine that another dividend, or no dividend, should be paid.

For the financial year ended 30 June 2012, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2010-11). This amounts to a total dividend of $6.051 million in respect of the year ended 30 June 2012. The Minister and Treasurer approved this recommendation in June 2012.

HomeStart paid a dividend amount of $6.014 million to the Department of Treasury and Finance prior to the end of the financial year. HomeStart will be required to pay a further dividend amount of $.037 million in respect of the financial year ended 30 June 2012. These amounts are disclosed as a dividend paid/payable.

NOTE 29 Other liabilities

29.1 Other liabilities

	2012 $'000	2011 $'000
Other liabilities payable to or arising from transactions with entities within the state government		
Aboriginal loan security deposit	-	127
Department of Health and Ageing	-	324
Unearned income (EquityStart grant)	1 339	1 422
Total other liabilities payable to or arising from transactions with entities within the state government	**1 339**	**1 873**
Other liabilities payable to or arising from transactions with entities external to the state government		
Workers compensation provision	32	15
Wyatt Benevolent Institution	1 805	1 105
Make good provision	188	187
City of Salisbury	4	4
Total other liabilities payable to or arising from transactions with entities external to the state government	**2 029**	**1 311**
Total other liabilities	**3 368**	**3 184**

29.2 Unearned income (EquityStart grant)

	2012 $'000	2011 $'000
Opening balance	**1 422**	**2 438**
Amounts received/receivable	761	663
Amount recognised as earned (note 6)	(844)	(1 679)
Closing balance	**1 339**	**1 422**

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* requires that government grants related to costs be deferred and recognised in the Statement of Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

HomeStart has reviewed the costs expected to be incurred in relation to the EquityStart loan portfolio and the period over which they are expected to arise. This review has resulted in a change in estimate of the amount of grant income that should be recognised in order to match the costs incurred.

The net financial effect of the change in the current financial year is an increase in Unearned income (EquityStart grant) of $566 000 and a decrease in EquityStart income of $690 000 (refer to note 6).

29.3 Make good provision

	2012 $'000	2011 $'000
Opening balance	**187**	**209**
Unwinding of discount arising from the passage of time	1	(22)
Closing balance	**188**	**187**

NOTE 30 Equity

General reserve for credit losses

A general reserve for credit losses was created to set aside retained earnings being the equivalent of the loans impairment provision determined under former AGAAP in excess of the specific and collective loss provisions determined under AASB 139. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

Derivatives valuation reserve

The derivatives valuation reserve was created to recognise the effective gain or loss on derivatives that are designated hedging instruments.

NOTE 31 Financial risk management

31.1 Overview

HomeStart's activities expose it to a variety of financial risks, primarily:

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

This note presents information about HomeStart's exposure to each of the above risks as well as HomeStart's objectives, policies and processes for measuring and managing risk.

Taking risk is core to HomeStart's business. HomeStart aims to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

HomeStart's Board of Management has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies.

HomeStart's risk management policies are designed to identify and analyse financial risks, set appropriate risk limits and controls, and monitor the risks and adherence to limits by means of reliable and up-to-date information systems. HomeStart regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial risk management is the responsibility of HomeStart's internal Treasury & Risk department which identifies, evaluates and, when feasible and appropriate, hedges financial risks. It operates in accordance with policies approved by the board and its sub-committees. These written policies cover overall risk management as well as specific areas, such as interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of funds.

HomeStart's Audit Committee is responsible for monitoring compliance with HomeStart's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by HomeStart. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. HomeStart's ALCO is also directly involved in the risk management process, in particular as it relates to the management of market risk and credit risk.

HomeStart's exposures to financial risk and how they arise as well as its objectives, policies and processes for managing the risk and the methods used to measure the risk have not changed materially from the previous period.

31.2 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause HomeStart to incur a financial loss by failing to discharge an obligation.

HomeStart's exposure to credit risk arises primarily from loans and advances to customers.

As described below, HomeStart manages its credit risk by dealing with credit worthy customers and counterparties, setting credit limits on its exposures and obtaining collateral.

31.2.1 Loans and advances

(a) Credit risk management

Credit risk is inherent in HomeStart's core function of lending.

HomeStart's credit risk management processes are overseen by the board and its Audit and ALCO sub-committees.

The board and its sub-committees are responsible for approving new lending and arrears management policies. The authority to make credit decisions in accordance with these approved policies is delegated by the board to executive management.

The board and its sub-committees are responsible for monitoring payment and loss performance and regularly consider trends in the number of loans more than 30 days past due, expected loss analysis performed by both management and an independent actuary and actual losses realised.

The effectiveness of HomeStart's credit risk management framework is monitored via compliance and reporting processes. The Audit Committee is responsible for overseeing the internal audit of adherence to approved lending and arrears management policies.

(b) Risk control and mitigation policies

HomeStart manages, limits and controls credit risks wherever they are identified. Some specific control and mitigation measures are outlined below.

Lending policies

HomeStart's approved lending policies require verification of the customer's income and an assessment of credit worthiness based on credit checks with independent agencies and statistical analysis of the factors most likely to lead to credit default. HomeStart has at no time undertaken lending on a reduced documentation basis or lending which relies in any way on borrowers' self-verification of income.

Collateral

HomeStart holds collateral against loans and advances to customers in the form of registered mortgages over security properties.

HomeStart's credit principles specify that loans may only be made where the customer has the capacity and ability to repay. Obtaining collateral is used to mitigate credit risk.

Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured at the time of settlement. It is an ongoing condition of the loan contract that this insurance be kept current. Following settlement HomeStart has other insurance arrangements to mitigate the risks arising from uninsured properties.

In the event of a loan default, any loan security is held as mortgagee in possession. Any property thus held does not meet the recognition criteria of Australian Accounting Standards and is not recognised in the Statement of Financial Position.

The estimated fair value of collateral held is based on the Valuer General annual property data or a current formal valuation. As at year-end the fair value of collateral for past due and impaired loans was:

	2012 $'000	2011 $'000
Past due but not impaired		
Gross carrying value	91 049	109 895
Fair value of collateral	140 403	182 565
Impaired		
Gross carrying value, before specific impairment provisions	39 152	32 336
Specific provision for impairment	(9 247)	(8 222)
Net impaired loans and advances	29 905	24 114
Fair value of collateral	40 093	33 908

Concentration of counterparty and geographic risk

HomeStart is not materially exposed to any individual customer. HomeStart only lends in South Australia and is therefore exposed to the property market in this state.

Approximately 28% (31% 2010-11) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area. This represents a risk as the limited market liquidity in country regions as well as the less diversified nature of rural economies can lead to greater volatility in property values. HomeStart currently manages this risk by imposing stricter Loan to Valuation Ratio (LVR) limits when lending in some country locations, and excluding others completely.

At reporting date 31% (30% 2010-11) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies as well as obtaining and managing collateral, as described above.

Higher LVR loans

HomeStart has several product categories where the initial LVR is permitted to exceed 95% (higher LVR loans). To mitigate and control associated risks the total dollar value of higher LVR loans is not permitted to exceed internal limits. In order to control volumes of higher LVR lending, HomeStart limits both the geographic range of higher LVR lending and imposes further credit assessment requirements.

Loan provision charge

HomeStart does not require its customers to pay for Lenders Mortgage Insurance. It does, however, require its customers to pay a Loan Provision Charge at the time of advancing a loan.

(c) Credit risk measurement

Significant portfolio analysis is performed by management on a regular basis to measure and report credit risk. This work is supplemented by an independent actuarial review performed each year, the outcomes of which include the expected future amounts to be written-off.

This operational measurement can be contrasted with the impairment allowances required by AASB 139, which are based on the existence of objective evidence of impairment at the reporting date rather than expected losses (note 2.11 and note 19).

The amount of incurred credit losses provided for in the financial statements differs from the amount determined from the expected loss model that is used for internal operational management due to the different methodologies applied.

	2012 $'000	2011 $'000
Expected losses used for internal operational management	17 532	18 838
Provision for impairment in the financial statements	(19 217)	(18 130)
Difference	**(1 685)**	**708**

HomeStart has designated its Breakthrough Loans as being at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough Loan is not material.

(d) Credit quality and maximum exposure to credit risk

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of $1866.81 million ($1817.39 million 2010-11).

The credit quality of loans and advances can be assessed by reference to the expected loss amount used for internal operational management (as described above) and the Behaviour Risk Grading (BRG) system adopted by HomeStart.

The BRG system is a statistical tool used to monitor the credit behaviour of loans over time and assign a risk grading to each. Outcomes are monitored regularly to test the validity of assumptions and parameters used.

The following tables set out the carrying value of loans and advances to customers. Further analysis by risk grading is also provided.

	2012 $'000	2011 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 385 779	1 185 843
Moderate risk	358 200	493 379
High risk	20 303	23 203
Gross loans and advances neither renegotiated nor past due	***1 764 282***	***1 702 425***
Renegotiated (1)		
Low risk	6 691	5 824
Moderate risk	2 992	3 487
High risk	764	676
Gross loans and advances renegotiated	***10 447***	***9 987***
Past due but not impaired (2)		
Low risk	30 027	34 890
Moderate risk	44 133	53 248
High risk	16 889	21 757
Gross loans and advances past due but not impaired	***91 049***	***109 895***
Total not impaired		
Low risk	1 422 497	1 226 557
Moderate risk	405 325	550 114
High risk	37 956	45 636
Gross loans and advances not impaired	***1 865 778***	***1 822 307***
Impaired (3)		
Low risk	9 325	4 242
Moderate risk	17 639	15 539
High risk	12 188	12 480
Gross impaired loans and advances	*39 152*	*32 261*
Specific provision for impairment	(9 247)	(8 222)
Impaired loans and advances after provisions	***29 905***	***24 039***
Total		
Low risk	1 431 822	1 230 799
Moderate risk	422 964	565 653
High risk	50 144	58 116
Gross loans and advances	*1 904 930*	*1 854 568*
Fair value adjustment	(16 050)	(16 180)
Deferred loan fee income	(5 586)	(5 898)
Deferred loan fee expense	2 732	3 033
Specific provision for impairment	(9 247)	(8 222)
Collective provision for impairment	(9 970)	(9 908)
Net loans and advances	**1 866 809**	**1 817 393**

The following table provides an analysis of the age of financial assets that are past due as at the reporting date but not impaired.

	2012 $'000	2011 $'000
< 30 days	66 327	78 180
30 – 59 days	17 068	21 357
60 – 89 days	3 465	5 526
90 – 179 days	1 515	2 763
>179 days	2 674	2 069
Total	**91 049**	**109 895**

(1) Loans and advances renegotiated

HomeStart policy permits certain customers to increase the balance of their loan by the amount of their arrears (arrears capitalisation). Following arrears capitalisation, a previously overdue customer account is reset to normal status.

HomeStart assesses arrears capitalisation on a case-by-case basis and decisions are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due or impaired totalled $10.4 million as at 30 June 2012 ($10.0 million 2010-11).

(2) Past due but not impaired

As per AASB 7 *Financial Instruments: Disclosures* (AASB 7), past due but not impaired loans are those where a counterparty has failed to make a payment when contractually due, however, are not considered impaired due to collateral available and other loan performance and customer characteristics.

(3) Impaired loans

Impaired loans and advances are those where HomeStart has determined that it is probable that it will be unable to collect all principal and interest due in accordance with the contractual terms of the loan agreement.

31.2.2 Derivative financial liabilities

(a) Credit risk management and risk control and mitigation policies

HomeStart is permitted by the Treasurer to transact in derivatives only with SAFA.

(b) Maximum exposure to credit risk

As at 30 June 2012 and 30 June 2011, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2012 $'000	2011 $'000
Derivative financial instruments	(10 587)	(3 189)
Swap income receivable	326	517
Swap expense payable	(520)	(648)
Net payable (note 24)	(194)	(131)

Further information in relation to derivatives is disclosed in notes 31.3.3 and 31.4.2.

31.3 Liquidity risk

Liquidity risk is the risk that HomeStart may, at some stage, be unable to meet its financial obligations when they fall due. The consequence may be failure to meet obligations to repay SAFA and fulfil commitments to lend money to customers.

31.3.1 Liquidity risk management

Risks relating to liquidity are governed by a range of treasury management policies, which are subject to oversight by the board's ALCO sub-committee.

HomeStart's liquidity management process is carried out and monitored by the Treasury & Risk department and includes:

- day-to-day management of funding by monitoring cash flows to ensure excess funds are repaid, funds are replenished as they mature, and funds are borrowed when needed to meet lending and other financial commitments; and
- monitoring internal liquidity ratios and limits.

Monitoring and reporting takes the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Whole of government policy requires that HomeStart hold a positive balance in its operating bank account. HomeStart's internal policy requires maintaining daily cash at an agreed target balance.

31.3.2 Funding approach

HomeStart is required to use SAFA as its sole counterparty for all funding transactions. The arrangement gives HomeStart access to a significant volume of liquidity, restricted by an approved borrowing limit of $1 900 million as at 30 June 2012 ($1900 million 2010-11). On 22 June 2012 the Treasurer approved an increase to HomeStart's borrowing limit to $2105 million, effective 1 July 2012.

31.3.3 Exposure to liquidity risk

(a) Non-derivative cash flows

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt subject to refinancing in the next twelve month period is to be limited to 40% (50%, 2010-11) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	2012 %	2011 %
At 30 June	36.44%	5.44%
Average for the period	12.10%	25.93%
Maximum for the period	36.44%	47.77%
Minimum for the period	5.87%	3.43%

The table below presents the cash flows payable by HomeStart under non-derivative financial liabilities by remaining contractual maturities at the reporting date.

2012	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000	Carrying value $'000
Liabilities							
Payables	4 897	2 504	-	-	-	7 401	**7 401**
Borrowings	146 369	9 796	549 449	777 253	476 717	1 959 584	**1 812 364**
Other financial liabilities	-	1 102	1 109	-	-	2 211	**2 211**
Total liabilities (contractual maturity dates)	*151 266*	*13 402*	*550 558*	*777 253*	*476 717*	*1 969 196*	***1 821 976***
2011	**Up to 1 month $'000**	**1-3 months $'000**	**3-12 months $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**	**Carrying value $'000**
Liabilities							
Payables	5 845	2 348	-	-	-	8 193	**8 193**
Borrowings	99 995	13 879	63 109	1 426 305	508 693	2 111 981	**1760 800**
Other financial liabilities	-	1 503	1 706	-	-	3 209	**3 209**
Total liabilities (contractual maturity dates)	*105 840*	*17 730*	*64 815*	*1 426 305*	*508 693*	*2 123 383*	***1 772 202***

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, cash equivalents, loans and advances to individuals and liquid investments.

(b) Derivative cash flows

Derivatives used by HomeStart to hedge risk include interest rate swaps, forward rate agreements and bank bill futures. The table below analyses HomeStart's derivative financial liabilities at fair value that will be settled on a net basis into relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000
2012	(338)	(707)	(3 186)	(6 786)	(1 180)	(12 197)
2011	(237)	(385)	(1 225)	(1 436)	255	(3 028)

Further information in relation to derivatives is disclosed in notes 31.2.2 and 31.4.2

(c) Off Balance Sheet

The periods of payment of unrecognised contractual commitments are disclosed in note 33.

31.4 Market risk

Market risk is the risk of changes in market prices such as interest rates, equities prices, credit spreads and property prices affecting HomeStart's income and returns.

The objective of market risk management is to monitor, control and mitigate exposure to this risk, all within acceptable parameters while at the same time optimising return.

31.4.1 Market risk management

HomeStart's market risk management processes are overseen by the board and its ALCO sub-committee.

A comprehensive Treasury Master Document sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings, by the Finance Sub-Committee at its weekly meetings and by the Treasury & Risk department on a daily basis.

ALCO is responsible for approving these policies. The authority to make decisions in accordance with these approved policies is delegated by the board to executive management.

The effectiveness of HomeStart's market risk management framework is monitored via compliance and reporting processes and independent review by internal audit.

31.4.2 Interest rate risk – derivative financial instruments

(a) Risk control and mitigation policies

HomeStart manages, limits and controls market risks wherever they are identified. The following outlines some specific control and mitigation measures.

HomeStart engages in derivative financial instruments to hedge interest rate risk within its portfolio. These derivatives include interest rate swaps, forward rate agreements and bank bill futures.

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. To protect it from an increase in interest rates payable on its borrowings, HomeStart enters into interest rate swap contracts in order to hedge this mismatch of cash flows.

As at 30 June 2012, HomeStart had floating/fixed swaps with a notional value of $224 million ($266 million, 2010-11) with fixed rates varying between 3.12% and 7.83% (3.88% and 7.83%, 2010-11).

Periods to maturity of the interest rate swap contracts are disclosed at note 31.3.3(b).

(b) Market risk measurement and maximum exposure to interest rate risk

The three major risk measurement processes used by HomeStart to measure and control interest rate risk are the Present Value per Basis Point (PVBP), Value at Risk (VaR) methodology and stress testing. These processes are applied to all of HomeStart's financial asset, liability and derivatives positions, with the exception of investments held through the Risk Transfer Vehicle which are monitored separately (refer to section 31.4.3).

Present Value per Basis Point (PVBP)

HomeStart measures the PVBP of financial asset, liability and derivative positions. PVBP analysis identifies the extent of interest rate risk within different maturity buckets and for the portfolio overall. Limits for portfolio PVBP are set by ALCO and monitored monthly. The Treasury & Risk department reviews PVBP statistics daily.

Internally approved limits for the PVBP are set at $10 000 to ($10 000) and these were not exceeded at any time in the years ended 30 June 2012 and 30 June 2011.

	2012 $'000	2011 $'000
Limit	+/-10	+/-10
Average for the period	0.6	(0.7)
Maximum for the period	5.4	1.6
Minimum for the period	(5.1)	(2.3)

Value at Risk (VaR)

HomeStart applies a VaR methodology to estimate the market risk of all positions held and the maximum losses expected, based upon a number of assumptions for changes in market conditions. ALCO sets limits on the value at risk that may be accepted by HomeStart, which are monitored on a daily basis by the Treasury & Risk department and monthly by the board and ALCO.

HomeStart's VaR methodology models non-parallel shifts in the yield curve using the last 250 days of historical interest rate data to predict within a 99% confidence interval the likely outcome for the market value of a position or portfolio assuming it takes ten days to unwind the open positions that give rise to the exposure. Actual outcomes are monitored regularly to test the validity of assumptions and parameters/factors used in the VaR calculation.

Although VaR represents a good estimate of potential losses under normal market conditions, the assumptions on which the model is based give rise to some limitations, including the following:

- a ten day period to unwind open positions assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period
- a 99% confidence interval means there is a 1% statistical probability that actual loss could be greater than the VaR estimate. The use of this approach does not prevent losses outside set limits in the event of more significant market movements.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions held during the day
- the use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature
- the VaR measure is dependent upon HomeStart's position and the volatility of interest rates. The VaR of an unchanged position reduces if interest rate volatility declines and vice versa.

The table below summarises the approved maximum loss limits, which HomeStart did not exceed at any time, for the years ended 30 June 2012 and 30 June 2011:

	2012 $'000	2011 $'000
Maximum loss limit	1 100	1 100
Average for the period	301	220
Maximum for the period	1 053	323
Minimum for the period	65	170

Stress testing

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures. In addition, HomeStart uses stress tests to provide an indication of the potential size of losses that could arise in extreme conditions.

HomeStart's treasury system undertakes daily worst case interest rate tests on the entire asset and liabilities portfolio (including derivatives). Six different scenarios are used to test the impact of movements in interest rates on the market value of the entire portfolio. The average worst case outcome is reported monthly to the board and ALCO.

The table below summarises the approved maximum loss limits, which HomeStart did not exceed at any time, for the years ended 30 June 2012 and 30 June 2011.

	2012 $'000	2011 $'000
Maximum loss limit	2 500	2 500
Average for the period	525	513
Maximum for the period	1 334	269
Minimum for the period	71	722

(c) Hedge accounting

Fixed interest rate loan assets have been valued at fair value, being face value plus net transaction costs, and are hedged by interest rate swaps, which have been designated as cash flow hedges, to enable the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Statement of Comprehensive Income when HomeStart satisfies the "hedge accounting" requirements contained in AASB 139 *Financial Instruments: Recognition and Measurement*.

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Statement of Comprehensive Income immediately. In the year ended 30 June 2012, a $7.40 million loss ($3.18 million gain, 2010-11) was recognised in equity during the period.

Further information in relation to derivatives is disclosed in notes 31.2.2 and 31.3.3.

31.4.3 Investments price risk

(a) Risk control and mitigation policies

HomeStart is exposed to investment price risk arising from investments held by HomeStart and classified on the Statement of Financial Position at fair value through profit or loss.

To manage its price risk arising from investments, HomeStart diversifies its portfolio in accordance with limits set by ALCO. The investments are held on a passive investment basis. Adherence to approved limits is monitored on a weekly basis by the Treasury & Risk department and monthly by the board and ALCO.

(b) Maximum exposure to investments price risk

HomeStart's maximum exposure to investments price risk has been recognised as the carrying amount at reporting date (note 17).

(c) Sensitivity analysis

The following tables summarise the sensitivity of HomeStart's profit to investment price risk. The analysis is based on the assumption of a 10% increase or decrease in market value at year-end, with all other variables being held constant.

2012	**Carrying amount $'00**	**-10%**	**+10%**
Unit Trusts	9 521	(952)	952
SAFA Cash Management Fund	6 583	(658)	658
Total increase/(decrease) in profit before tax and equity		**(1 610)**	**1 610**

2011	**Carrying amount $'00**	**-10%**	**+10%**
Unit Trusts	9 014	(901)	901
SAFA Cash Management Fund	24 944	(2 494)	2 494
Total increase/(decrease) in profit before tax and equity		**(3 395)**	**3 395**

31.4.4 Breakthrough Loan property price risk

(a) Risk control and mitigation policies

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough Loans made to customers that are measured at fair value through profit or loss. The fair value of this loan is based on the value of the property pledged as collateral (note 2.12).

To manage its price risk arising from Breakthrough Loans, HomeStart limits the total size of the Breakthrough Loan portfolio, the dollar value of loans settled each month and the geographic locations where lending is undertaken.

(b) Maximum exposure to property price risk

HomeStart's maximum exposure to property price risk has been recognised as the carrying amount at balance date (note 17).

(c) Sensitivity analysis

The following table summarises the sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan. The analysis is based on the assumption of a 5% increase or decrease in property market value at year-end, with all other variables being held constant.

	2012			**2011**		
	Carrying amount $'000	**-5%**	**+5%**	**Carrying amount $'000**	**-5%**	**+5%**
Breakthrough Loan	70 247	(4 021)	4 381	67 716	(4 094)	4 435
Total increase/(decrease) in profit before tax and equity		**(4 021)**	**4 381**		**(4 094)**	**4 435**

31.4.5 Currency risk

Changes in foreign exchange rates will not directly cause the fair value or future cash flows of any financial instruments held by HomeStart to fluctuate.

NOTE 32 Fair value and categorisation of financial instruments

32.1 Fair value and categorisation of financial instruments

The table below summarises the categorisation, carrying amounts and fair values of HomeStart's financial assets and liabilities.

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect of each class of financial asset and financial liability are disclosed in note *2 Summary of significant accounting policies.*

	Category	2012 Carrying value $'000	2012 Fair value $'000	2011 Carrying value $'000	2011 Fair value $'000
Financial assets					
Cash and cash equivalents	N/A	2 781	2 781	3 807	3 807
Investments	Fair value through profit or loss	106 469	106 469	101 674	101 674
Investments	Held-to-maturity	12 089	13 071	12 103	12 484
Loans and advances	Amortised cost	1 866 809	1 917 777	1 817 393	1 866 171
Other financial assets	Financial assets (at cost)	1 044	1 044	884	884
Total financial assets		**1 989 192**	**2 041 142**	**1 935 861**	**1 985 020**
Financial liabilities					
Borrowings	Financial liabilities (amortised cost)	1 812 364	1 803 447	1 760 800	1 771 826
Derivative financial instruments	Hedge accounting (fair value through equity)	10 587	10 587	3 189	3 189
Payables	Financial liabilities (at cost)	7 401	7 401	8 193	8 193
Income tax equivalents payable	Financial liabilities (at cost)	2 174	2 174	3 006	3 006
Provision for dividend	Financial liabilities (at cost)	37	37	203	203
Total financial liabilities		**1 832 563**	**1 823 646**	**1 775 391**	**1 786 417**
Net financial assets		**156 629**	**217 496**	**160 470**	**198 603**

32.2 Fair value estimation

(a) Derivatives

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows determined using the yield curve at year-end. The yield curve is derived from the cash rate (overnight), current interbank money market rates (maturities less than one year) and current interest rate swap levels (maturities of one year and longer).

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows of non-subsidised loans are discounted using the interest rate payable by the customer, which is market rate. Subsidised loans are discounted using a risk free rate of interest, based on four year (for Advantage Loans) and ten year (for EquityStart Loans) SAFA bonds.

(c) Investments

The fair value of investments in the Unit Trusts and SAFA Cash Management Fund are determined using exit prices supplied by the fund managers at reporting date.

(d) Shared appreciation component of the Breakthrough Loan

Note 2.12 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough Loan.

The fair value is estimated by management based on individual property valuations provided by independent parties. These valuations are adjusted by HomeStart's contractual equity stake and appreciation factor.

The valuations used by management are primarily determined by Hometrack Australia using an automated valuation method. Prior to accepting an automated valuation for use, management reviews the statistical probability of error provided by Hometrack Australia to ensure that the risk of material misstatement to the financial statements is unlikely.

When management judges that valuations determined using an automated valuation method are not sufficiently accurate, valuations provided by either the Valuer General or another independent valuer are used. The following summarises how the fair values of properties used as collateral for Breakthrough Loans have been determined.

	2012 %	2011 %
Valuation determined using an automated method (Hometrack Australia)	94.90%	94.31%
Valuation provided by the Valuer General	4.55%	5.57%
Other independent valuation used	0.55%	0.12%

32.3 Hierarchical classification of financial assets measured at fair value

The following discloses, for each class of financial instrument measured at fair value, the level in the fair value hierarchy into which the fair value measurements are classified in their entirety, segregating fair value measurements in accordance with the following levels:

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

There have been no significant transfers between Level 1, Level 2 and Level 3 during the financial year.

2012	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	6 583	-	6 583
Term Deposits	-	20 118	-	20 118
Unit Trusts	-	9 521	-	9 521
Breakthrough Loan	-	-	70 247	70 247
Total financial assets measured at fair value	**-**	**36 222**	**70 247**	**106 469**
Financial liabilities measured at fair value				
Derivative financial instruments	-	10 587	-	10 587
Total financial liabilities measured at fair value	**-**	**10 587**	**-**	**10 587**
2011	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	24 944	-	24 944
Unit Trusts	-	9 014	-	9 014
Breakthrough Loan	-	-	67 716	67 716
Total financial assets measured at fair value	**-**	**33 958**	**67 716**	**101 674**
Financial liabilities measured at fair value				
Derivative financial instruments	-	3 189	-	3 189
Total financial liabilities measured at fair value	**-**	**3 189**	**-**	**3 189**

32.4 Reconciliation of Level 3 fair value measurements

	2012 $'000	2011 $'000
Fair value at 1 July	**67 716**	**58 281**
Breakthrough Loan settlements	10 551	12 134
Breakthrough Loan discharges	(4 417)	(4 048)
Unrealised change in fair value of loans (notes 6 and 15)	(3 603)	1 349
Fair value at 30 June	**70 247**	**67 716**

Note 31.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

NOTE 33 Unrecognised contractual arrangements

33.1 Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2012 $'000	2011 $'000
Not later than one year	1 601	-
Later than one year but not later than five years	286	-
Total capital commitments	**1 887**	**-**

HomeStart's capital commitments are for the modification, customisation and implementation of a replacement front end loan system.

33.2 Software licence commitments

Software licence expenditure contracted for at the reporting date but not recognised as liabilities in the financial report, are payable as follows:

	2012 $'000	2011 $'000
Not later than one year	-	-
Later than one year but not later than five years	1 357	-
Total capital commitments	**1 357**	**-**

HomeStart's software licence commitments are in relation to a replacement front end loan system.

33.3 Operating leases

HomeStart as lessee

HomeStart's operating lease commitments are for office accommodation. The leases are non-cancellable with terms ranging up to five years with some leases having the right of renewal. Rent is payable monthly in advance.

The total amount of rental expense for minimum lease payments in the financial year is disclosed in note 15.

Commitments under non-cancellable operating leases at the reporting date not recognised as liabilities in the financial statements, are payable as follows:

	2012 $'000	2011 $'000
Not later than one year	1 084	850
Later than one year but not later than five years	1 853	2 744
Total operating lease commitments	**2 937**	**3 594**

HomeStart as lessor

HomeStart is the lessor of office accommodation. The lease is non-cancellable with a term up to five years with the right of renewal. Rent is receivable monthly in advance.

The total amount of rental income received in the financial year is disclosed within other income in note 6.

Amounts due to HomeStart under a non-cancellable operating lease at the reporting date not recognised as an asset in the financial statements, are receivable as follows:

	2012 $'000	2011 $'000
Not later than one year	203	219
Later than one year but not later than five years	-	228
Total operating lease receivables	**203**	**447**

33.4 Remuneration commitments

Commitments for the payment of salaries and other remuneration under fixed term employment contracts in existence at the reporting date are not recognised as liabilities.

Notes 10 and 11 set out remuneration costs for the years ended 30 June 2012 and 30 June 2011. HomeStart estimates that commitments from existing employment positions within one year and annually will be consistent with salaries and wages expenses in note 10, adjusted for salary inflation rate.

33.5 Commitments to extend credit to customers

Contractual commitments for loans either approved but not settled or settled but not fully drawn at the balance date amounted to $42.9 million ($44.1 million, 2010-11). These commitments are expected to be paid in the coming year.

NOTE 34 Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2012.

NOTE 35 Cash flow reconciliation

35.1 Cash

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

35.2 Reconciliation of profit for the year to net cash provided by operating activities:

	2012 $'000	2011 $'000
Profit for the year	**10 085**	**10 865**
Loss on sale of fixed assets	2	5
Amortisation of discount or premium on purchase of held to maturity financial investments	14	30
Depreciation and amortisation expense	541	641
Unrealised change in fair value of loans	3 603	(1 349)
Unrealised change in market value of investments	(75)	(31)
Accrued interest on fair valued investments	(325)	-
Realised change in market value of investments	(48)	(388)
Reinvestment of managed funds distribution	(1 261)	(1 321)
Reinvestment of interest on fair valued investments	(118)	-
Bad debts written-off	2 606	583
Fees applied directly to loan accounts	(5 277)	(5 251)
Changes in assets and liabilities:		
Increase in provision for impairment	1 087	301
(Decrease) increase in deferred loan fee income	(312)	(27)
(Decrease) increase in deferred loan fee expense	301	58
(Decrease) increase in fair value adjustment	(131)	(60)
Increase (decrease) in payables	(792)	1 999
Increase in provision for employee benefits	466	60
Increase (decrease) in other liabilities	184	142
Increase in unearned interest income	-	471
(Decrease) increase in income tax equivalents payable	(832)	(8)
(Increase) decrease in financial and other assets	(77)	(99)
Net cash provided by operating activities	**9 641**	**6 621**

NOTE 36 Events after balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of HomeStart, the results of those operations, or the state of affairs of HomeStart in subsequent years.

Auditor-General's Report

INDEPENDENT AUDITOR'S REPORT

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To the Chair of the Board
HomeStart Finance

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 27(4) of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, I have audited the accompanying financial report of HomeStart Finance for the financial year ended 30 June 2012. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2012
- a Statement of Financial Position as at 30 June 2012
- a Statement of Changes in Equity for the year ended 30 June 2012
- a Statement of Cash Flows for the year ended 30 June 2012
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and the General Manager Corporate Services and Chief Financial Officer.

Board's Responsibility for the Financial Report

The members of the Board are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as members of the Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the members of the Board, as well as the overall presentation of the financial report.

Auditor-General's Report

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2012, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

S O'Neill
AUDITOR-GENERAL
24 September 2012

HomeStart Finance

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Auditor-General of South Australia

Financial Statements
The financial statements in this Annual Report have been extracted from the full accounts which have been submitted to the Auditor-General.

Acknowledgements
HomeStart would like to thank the employees who are featured in this Annual Report.

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