Government of South Australia

HomeStart FINANCE

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27 September 2013

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

Dear Minister,

HomeStart Finance 2012-13 Annual Report

On behalf of the Board and Management of HomeStart Finance, I am pleased to present you with HomeStart's 2012-13 Annual Report.

While the housing industry struggled in many respects, HomeStart has continued to help more South Australians into home ownership.

The South Australian Government's housing grant reforms enabled us to assist even more first home buyers with the majority of these being families with children.

We have delivered a sound financial performance that contributes towards the state's strategic priorities.

For any further information on any aspect of our organisation, please do not hesitate to contact us.

Yours sincerely,

John Oliver
Chief Executive Officer
HomeStart Finance

2012-13 was a challenging year as the home loan market remained subdued due to decreased levels of consumer confidence and broader economic uncertainty. Despite lower interest rates and the stabilisation of house prices, home buyers remained conservative and first home buyers especially found affordability an even greater challenge.

As a result, HomeStart's lending volumes were lower than expected, however we still enabled 1297 South Australian families to achieve their goal of home ownership, 711 of which were first home buyers. From a financial perspective we delivered a strong financial performance making a profit before tax of $16.4 million, which is an increase of $2 million on last year, and achieved a Return on Equity of 10.26%.

HomeStart returned $38.9 million by way of fees, dividends and taxation equivalent payments to the South Australian Government during the financial year and takes the total amount so delivered in our 24 years of operation to $374.9 million. This also continued our run of being profitable every year since inception and by so doing, providing the government with a very sound return on its investment in HomeStart. I am also delighted that HomeStart has now helped over 63 500 households into home ownership over that time, the majority of which were not able to source their finance from a mainstream lender.

In October 2012 the state government announced housing grant reforms to boost the housing construction sector and HomeStart strongly supported this with its marketing efforts as well as continuing to accept the grants towards customer's deposit requirements, something many other financial institutions do not consider. Consequently, HomeStart saw a 50% increase in the number of loans for construction purposes. This equated to 228 households buying or building a brand new home as they were able to put the grants towards the deposit, fees and charges incurred in the construction of their new dwellings. This led to stronger lending volumes in the second half of the financial year, but this increased activity is also likely to be the early signs of the housing market commencing recovery.

The impact of the economic conditions on our customers was evident in the trends observed in customer arrears but the board and management continued to maintain a proactive and prudent approach to managing arrears levels. Notwithstanding those challenges, it is important to note that 88% of HomeStart customers are in advance on their home loan payments.

In addition and further reinforcing the prudential manner in which the business is managed, a risk appetite statement was developed that clearly establishes a framework for risk management across the broad range of risks to which HomeStart is exposed. This is now reviewed by the executive team and board on a quarterly basis.

Throughout the year, the board oversaw the development and monitoring of HomeStart's 2012-15 Strategic Plan. The plan establishes the pathway and priorities for HomeStart over this period, the performance of which is measured against a range of key performance indicators. I am pleased to report that sound progress is being made on the achievement of the goals established by management and endorsed by the board.

Our performance is a testament to HomeStart's dedicated team, and I thank the Executive and all the staff for the passion and commitment they bring to their roles. I would also like to acknowledge the work done by the Board of Management in delivering such positive outcomes for South Australia. In particular, I would like to note outgoing member Sandra De Poi's contribution to the board over the last seven years and extend our sincere thanks to her. In doing so, I welcome Maria Palumbo who brings a wealth of experience from her background in housing and finance and I look forward to the benefits her appointment will bring to the HomeStart team.

Going forward, HomeStart remains committed to contributing towards the goals of the state government's strategic priorities by providing further avenues into home ownership. It will be an exciting and challenging time as HomeStart seeks to reposition itself in the minds of the broader community and its target markets and ultimately make home ownership a reality for more people in more ways.

Claude Long
Chair

REPORT FROM THE CEO

I'd like to start this year's report by acknowledging HomeStart's valuable employees who make up the backbone of our remarkable long-term success. While we operate as a profitable lending organisation within the regulations of our Australian Credit Licence, we do so with a sense of care and compassion that attracts an exceptional group of people who are genuinely committed to making home ownership a reality for more people in more ways. Their innovation and flexibility helps build our achievement culture and to them I offer my sincere thanks for our collective success.

During 2012-13, we undertook a series of initiatives to help achieve the goals set in our Strategic Plan. We maintained a strong emphasis on first home buyers, while also working to address the needs of specific niche segments such as people starting over and overseas migrants to South Australia. By being disciplined and focussed on our Strategic Plan, we delivered a very sound financial performance in what was quite a challenging year.

In terms of reviewing the year in more detail, one of the areas that differentiates HomeStart from other financial institutions is our commitment to educating the community in which we live. During the year, we hosted eight seminars to help 315 people learn more about the home buying process. We also collaborated with local community groups and industry partners to deliver further seminars, which provided practical information to a wide range of potential home buyers. This commitment is further supported by our continued investment in our education and information based website mystart.com.au.

I am particularly pleased to share that a seminar we held several years ago to a group of Bhutanese community leaders led to a growing amount of referrals to HomeStart that have since resulted in over 60 Bhutanese households achieving home ownership. These Bhutanese migrants arrived in South Australia from 2008 onwards under a United Nations Third Country Resettlement Agreement, after living for up to 20 years in refugee camps in Nepal. Being able to assist them is an achievement that has made everyone at HomeStart exceptionally proud.

As HomeStart has a genuine desire to make a difference in the community, our sponsorship program continued to support the Operation Flinders' youth at risk program through the Trailblazer Challenge, in which many of our staff participated.

We entered our ninth year as the principal prize patron of the Channel 9 Young Achiever Awards that celebrate the positive achievements of young South Australians. Our belief that appropriate and safe housing should be available to those who need it drove our continued support of the 'Vinnies CEO Sleepout' and the Hutt Street Centre's 'Walk a Mile in my Boots'. Both events help raise funds for people who are homeless or at risk of homelessness and our support for them is steeped in the belief that everyone deserves to be treated with dignity and respect, regardless of their circumstances.

Moving people into home ownership often requires innovative housing and finance options. To this end, we broadened the eligibility criteria of our Graduate Loan beyond degrees and diplomas to include people with specific trade or technical qualifications received from Registered Training Organisations.

We worked with the Cities of Salisbury and Adelaide to offer shared appreciation loans that help provide housing finance options for people on moderate incomes. Finally, as a result of the changes to the First Home Owners Grant and the introduction of the Housing Construction Grant by the state government, we collaborated with a number of builders and developers to improve access for home buyers to newly constructed properties.

Our commitment and focus to building an achievement culture within HomeStart while improving and simplifying our processes to ensure we deliver better services to our customers, continued during the year with considerable success resulting in many productivity gains. Some of these projects were large, others small but they all brought our employees together in teams from across the business to solve problems and remove waste and inefficiency in our processes. The projects encouraged people to use their creativity and innovative thinking skills in developing solutions, whilst also gaining skills in structured problem solving by using a consistent framework and methodology. With project names such as 'Lend it Like Beckham', 'The Phantom Menace', 'Like a Version' and 'Planes, Trains and Automobiles' to name but a few, having some fun along the way was also an important component in striving to achieve Operational Excellence.

A significant focus and challenge during the year has been the work associated with the development of our new Front End Loan System (FELS). This project will transform the way we process loans and will provide many benefits for our customers, loan managers and brokers. It will provide HomeStart with an electronic loan application and approval process, automate many current manual processes, streamline all our document processing and enable us to create electronic loan files. It represents the largest Information Technology project undertaken in the history of HomeStart and is on schedule for implementation in October this year.

In closing, I would like to thank our Board of Management for their valuable contribution over what was a challenging year. Our Executive Team continues to learn from their experience and insightfulness as we work together effectively to make home ownership a reality for more people in more ways.

John Oliver
Chief Executive Officer

Our role

In 1989, HomeStart was created by the Government of South Australia in response to high interest rates and a lack of affordable home loan finance.

As a statutory corporation established under 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.

State government strategic priorities

Reporting to the Minister for Housing and Urban Development, HomeStart is committed to contributing towards the state government's strategic priorities:

- creating a vibrant city
- safe communities, healthy neighbourhoods
- an affordable place to live
- every chance for every child
- grow advanced manufacturing
- realising the benefits of the mining boom for all
- premium food and wine from our clean environment.

Of the state government's strategic priorities, HomeStart specifically contributes towards achieving 'an affordable place to live'. We do that by enabling customers to buy a home sooner, through a combination of our unique and affordable home loan products and distribution reach.

HomeStart collaborates with other government bodies and Community Housing Organisations to achieve more positive housing outcomes throughout the state.

Our reason for being

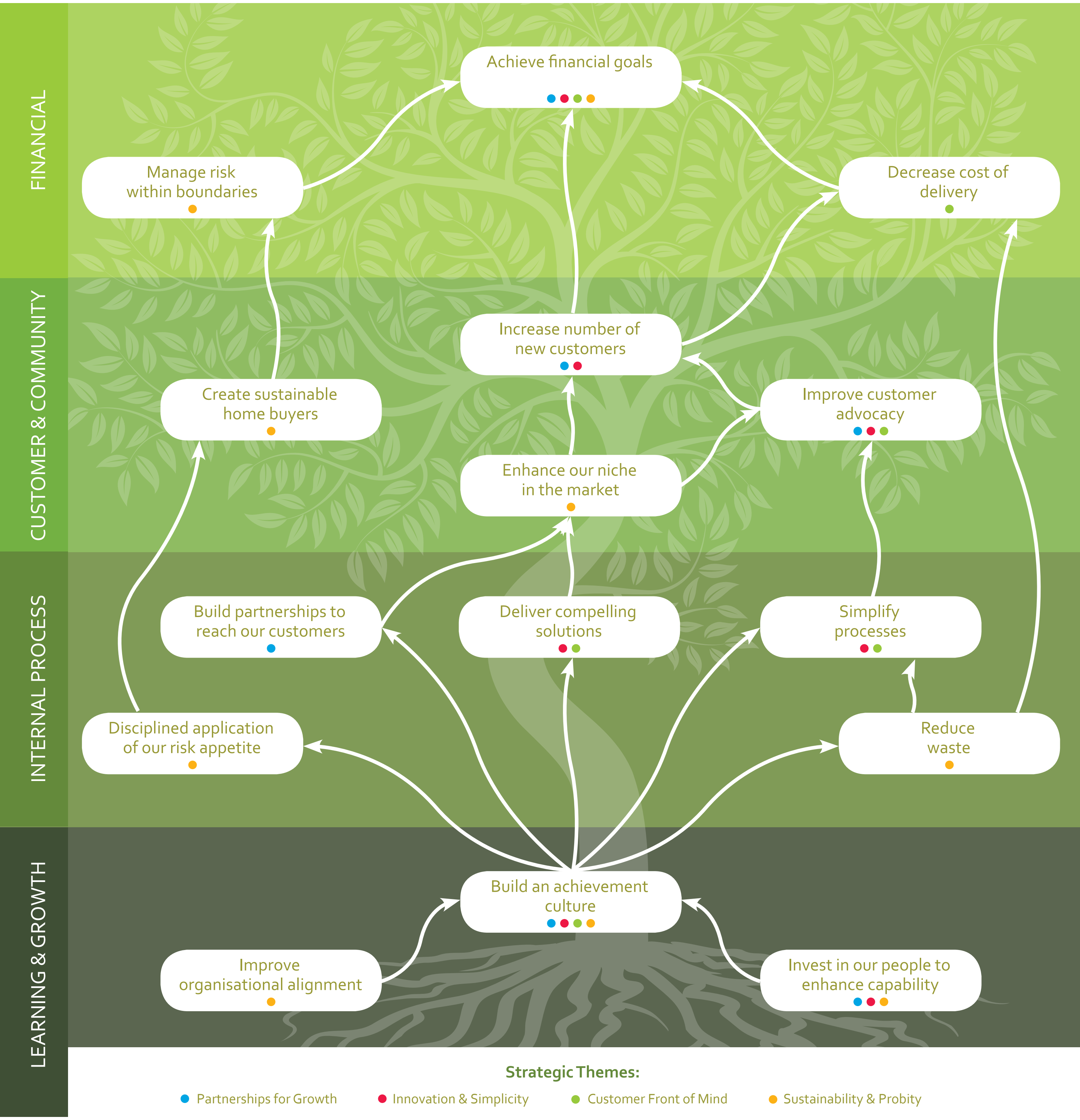
MAKING HOME OWNERSHIP A REALITY FOR MORE PEOPLE IN MORE WAYS.

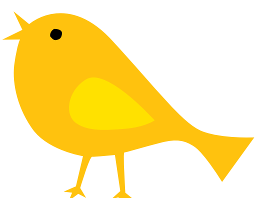
Our strategy

HomeStart's key priorities for 2012-15 are to:

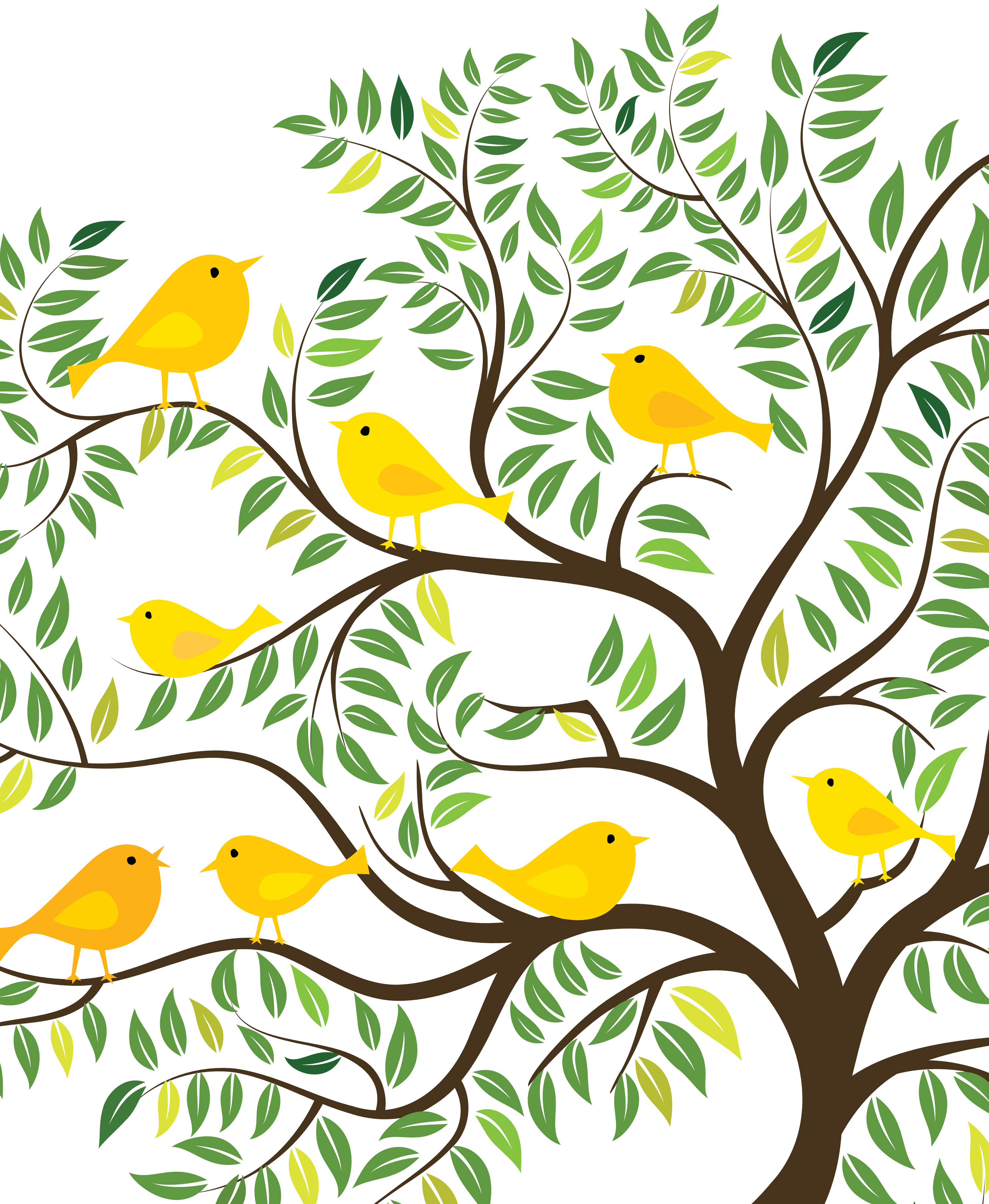
- make HomeStart the place first home buyers start
- increase the number of people we help
- build an achievement culture.

STRATEGY MAP





CUSTOMER & COMMUNITY



Our customers

HomeStart continues to help South Australians from a range of financial situations including:

- first home buyers starting out
- single parents starting over
- migrants settling into South Australia
- seniors releasing the equity in their home
- graduates looking to buy a home sooner
- singles living with their parents
- Housing SA tenants moving out of rental accommodation
- low income households needing a borrowing boost.

Since 1989, HomeStart has helped over 63 500 households into home ownership, 1297 in 2012-13.

What is common amongst this diverse range of customers is that 82% would not have been able to secure finance from a mainstream lender, at the time they secured their loan.

Here are some of the 2012-13 key statistics:

- 711 first home buyers, an increase of 5% from last year comprising 55% of new lending
- a 50% increase in the number of loans for construction purposes
- an average purchase price of $264 260 on par with last year
- an average loan amount of $225 462 similar to last year
- 88% of the portfolio are in advance on their repayments
- over half of new lending were customers leaving private rental
- a quarter of new lending came from regional areas.

Lending

Home finance markets had a relatively difficult year, as continued (albeit moderate) strength in the core economic indicators of growth, employment and inflation were not reflected in consumer sentiment. As a result, the Reserve Bank continued its program of rate cuts, with three 0.25% cuts through the year, dropping the official cash rate into unchartered waters at 2.75%.

The real estate market continued to be subdued nationwide in 2012-13, although home sales have started to rise from their low point in mid-2012. It is notable that while home finance approvals continued to recover strongly throughout the year, this was largely a function of an increasing turnover of existing loans (i.e. refinance) rather than the creation of new home lending outcomes which is HomeStart's primary focus.

HomeStart is optimistic that housing finance markets will continue to improve as the combination of low interest rates and improving home affordability create the right environment for first home owners to enter the market and existing home owners to upgrade. It's worth noting that although the HIA-CBA Housing Affordability Index for SA turned down in the March 2013 quarter (owing to a lift in house prices) the trend over the last three years has been unmistakable, and now presents borrowers with a level of affordability not seen for many years.

In October 2012, the state government introduced the Housing Construction Grant of $8500 to help boost the construction industry. This meant first home buyers looking to build or buy a brand new home, were now eligible for up to $23 500 in state grants.

Reflective of a subdued real estate market, HomeStart settled 1297 loans of $265.6 million in value, achieving 87% of its target for 2012-13.

Lending volumes remained steady through the financial year, trending upwards from March 2013.

HOUSING AFFORDABILITY INDEX, SA

Source HIA-Commonwealth Bank Affordability Report

Our loans

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. In 2012-13, the eligibility criteria was expanded to include specific tradespeople and technicians with a Certificate III/IV qualification.

This financial year, 157 Graduate Loans were settled, bringing the total number of loans to 1999 since the loan commenced in 2002.

Breakthrough Loan

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 or refinanced.

Since the product's inception in 2007, 1162 loans have been settled.

During the financial year, HomeStart completed a longitudinal study titled 'Breakthrough Loan Social and Economic Impact Study' conducted by the University of Adelaide. The results conclude that the Breakthrough Loan has had an overwhelmingly positive impact on customers' lives, as well as contributing over $7 million in home improvements to the state's economy since the product's launch.

Benefits expressed by customers include:

- easier workplace access
- employment opportunities
- children's access to better schools
- easier access to public transport
- easier access to amenities
- increased borrowing power.

The research findings have since been published in international journal, *Urban Studies*. It is the first formative, empirical study of shared appreciation loans.

Loans for construction

With many home buyers choosing to take advantage of the newly introduced $8500 Housing Construction Grant, the 2012-13 financial year saw a 50% increase in construction loans compared to last financial year. These 228 loans amounted to $56.3 million in value.

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).

Collaborating with the Adelaide City Council on an affordable housing initiative, HomeStart launched the Ergo Apartment Loan which will see 52 apartments made available for purchase in the city.

Working with the City of Salisbury, HomeStart launched the Greentree Walk Loan that will see eight homes made available to eligible first home buyers.

Throughout the year, HomeStart worked with a range of builders including Hickinbotham and Devine to offer construction loan options to help first home buyers get started from as little as $3000 upfront.

Low Deposit Loan

The Low Deposit Loan provides people looking to purchase a home in the metropolitan area with the opportunity to enter home ownership with as little as 3% deposit. In 2012-13, 70 loans were settled to a value of $19.2 million.

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 45 EquityStart loans were settled this financial year, bringing the number of loans since inception to 1263.

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.

A total of 232 Advantage Loans were settled in 2012-13.

Wyatt Loan

The Wyatt Loan also 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 32 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.

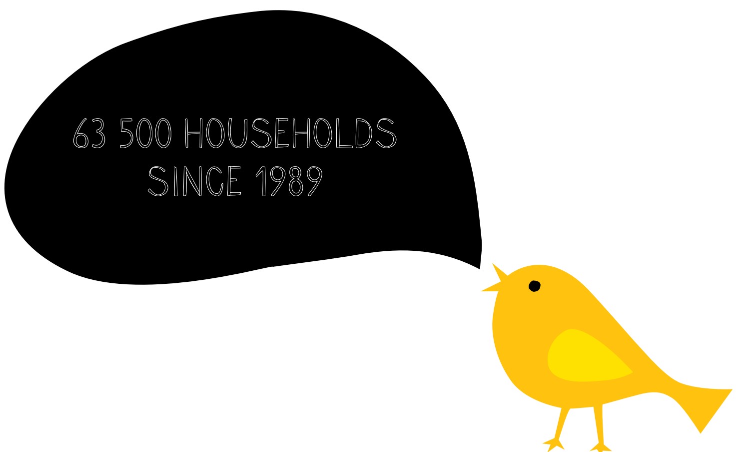
Seniors Equity Loan

HomeStart offers a reverse mortgage product for over 60's looking to unlock the equity in their home. A total of 82 settlements were made in 2012-13. With People's Choice Credit Union now accredited to write this product, we expect to help even more seniors in the future.

Community Lending

Over the past five years, HomeStart's specialist community lending team has achieved 299 community housing outcomes to the value of $28.7 million in loans. They partner 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 Community Housing Organisations.

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.



Customer service

HomeStart services its customers in a range of ways including face-to-face, over the phone, online via eHomeStart and through its loan managers and brokers in various locations across the state. We also provide translation services to help customers from culturally and linguistically diverse backgrounds achieve their home ownership goals.

HomeStart works with three distribution channels; an Adelaide head office; four loan managers (BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis); and a broker network of ten partners.

Over the financial year, HomeStart welcomed new aggregator Connective to the distribution network. This brings the total number of accredited brokers to 200. New lending through our brokers has increased by 72% since last financial year and in 2012-13, exceeded the target by 17%.

In addition, the Seniors Equity Loan is now available through People's Choice Credit Union.

In November 2012, HomeStart's Whyalla office was closed due to falling new customer numbers. Service remains available through a local broker or HomeStart Loan Manager.

In 2012-13, the Adelaide based Customer Contact Centre (CCC) received 21 555 enquiries, referring 47% of all settlements across our distribution network. Service levels remained high with abandoned call rates kept well under the target.

An initiative to improve internal lending volumes has seen capacity increase by 78%. In addition, HomeStart continued to prepare for the implementation of a new Front End Loan System (FELS) which will significantly improve customer service and change many of the internal processing systems. This is anticipated to go live in late 2013.

HomeStart measures customer satisfaction through the Net Promoter Score (NPS) methodology commonly used by financial institutions. This measure is reflective of how likely customers are to recommend HomeStart to other people. In 2012-13, HomeStart maintained an NPS score of 30, which is above the industry average.

HomeStart also engages with existing and potential customers through social media. The Facebook community now comprises of 2 653 'likes'. Interactive videos and notifications are posted on the YouTube channel.

The corporate website homestart.com.au received 146 363 visitors with an increasing number of visitors using a mobile device and seeking information 'on-the-go'. The learning centre that educates potential home buyers, mystart.com.au received 38 544 visitors.

Community contribution

In line with our Strategic Plan, HomeStart contributes to the community with a range of initiatives that are delivered through sponsorships, seminars, corporate volunteering, donations and fundraising activities.

Sponsorships

For over four years, HomeStart has supported the Operation Flinders program that helps youth at risk by sponsoring the Advertiser HomeStart Trailblazer Challenge. In 2012-13 the sporting event raised $205 000 with 1249 participants.

As the principal prize sponsor, HomeStart continues to support the Channel 9 Young Achiever Awards. It is an event that recognises young people's extraordinary contribution to the community and HomeStart has been involved for nine years. In 2012-13, HomeStart increased the prize for the overall winner to $5000.

At the Housing Industry Association (HIA) Apprentice and Trade Contractor Awards, HomeStart presented the Steel Frame Construction Apprentice of the Year Award and various contractor awards to leaders in their field.

Seminars

HomeStart believes in educating potential home buyers on the home buying process and through its seminar program, hosted eight sessions attended by 315 people in the community including graduates and migrants. Seminars were also conducted in partnership with the Real Estate Institute of South Australia (REISA), Devine, HIA and the Migrant Resource Centre.

Corporate volunteering

HomeStart's Community Engagement Strategy allocates one day a year of paid volunteer leave to each eligible employee. In 2012-13, over 30% of staff were involved in corporate volunteering which included activities with the RSPCA, Labs 'n Life and Cara.

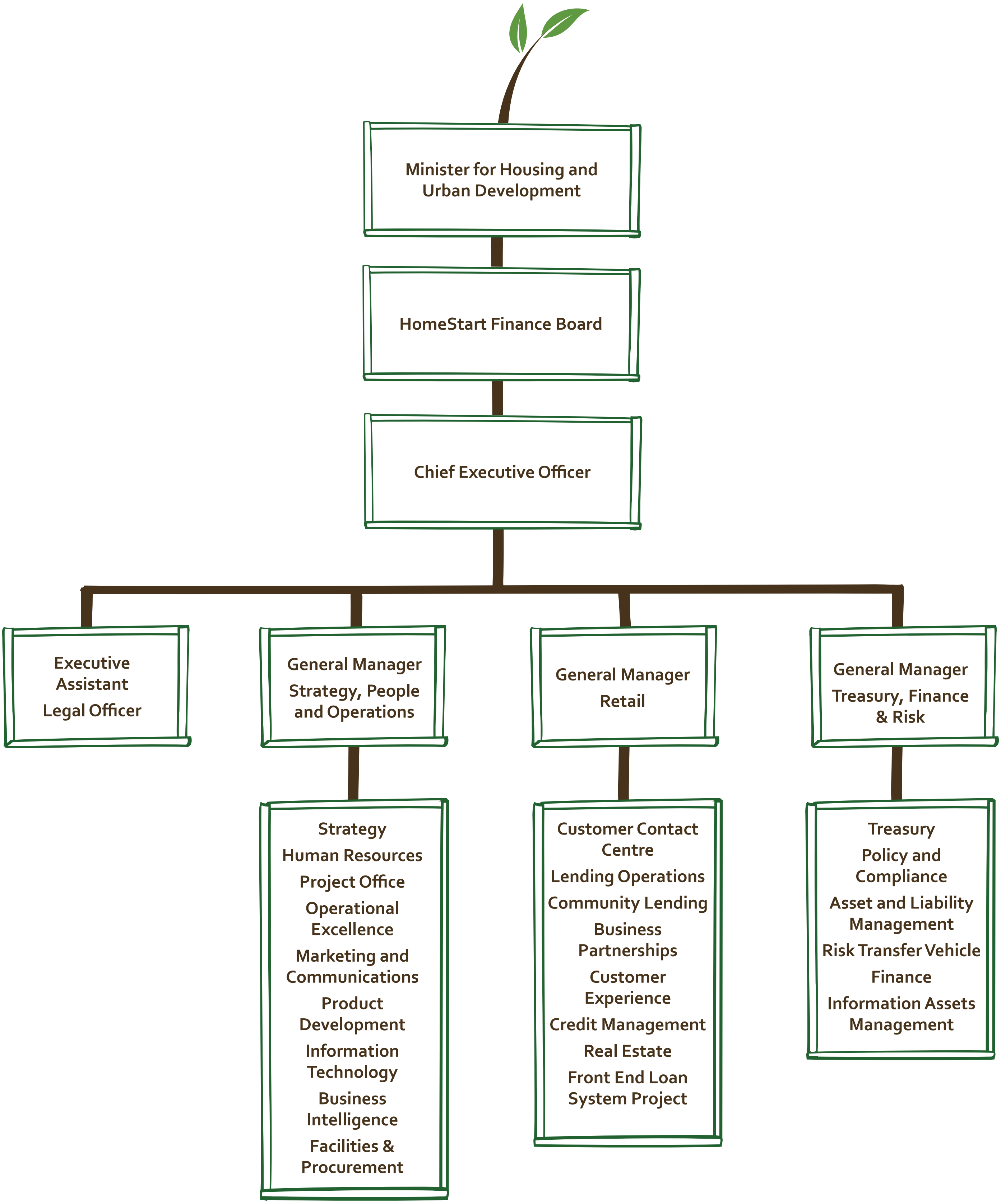
Donations and fundraising

This financial year, HomeStart helped:

- serve breakfast to the homeless at Hutt Street Centre
- 'Walk a Mile in my Boots' for the Hutt Street Centre
- support a Bhutanese soccer carnival
- fundraise through the Can:Do Caper
- build a farm stay respite home in Mount Barker
- supply computers to Technical Aid to the Disabled SA
- support the Steve Waugh Foundation
- donate funds to the Multiple Sclerosis Society
- raise awareness for autism via Rocket ASD Specialists
- purchase equipment for Riding for the Disabled South Australia
- support a disability basketball carnival
- auction artwork with proceeds donated to Habitat for Humanity
- raise funds to tackle homelessness by taking part in the 'Vinnies CEO Sleepout'.

LEARNING & GROWTH

ORGANISATIONAL CHART



HOMESTART EMPLOYS 110 STAFF MEMBERS

Our people

HomeStart drives personal and organisational performance by empowering its employees. We do this by providing clear direction, recognising their achievement and encouraging their personal growth. Here are some of the highlights from the year.

Total Rewards

In 2012-13, HomeStart introduced the Total Rewards program. Total Rewards encompasses an employee value proposition that underpins various benefits to encourage employee performance. This links to our strategic goal of building an achievement culture and ensures employees are remunerated and rewarded in a fair and consistent way through practices that are internally equitable and externally competitive.

Performance management

All employees participate in a regular program of one-on-one meetings with their managers. These support twice-yearly formal reviews where individual performance is assessed using a four point rating scale that measures business, behavioural and development objectives. This process ensures HomeStart has the right people and processes to achieve the goals in our Strategic Plan.

Fairness and equity

One-up manager reviews were introduced this financial year to ensure fairness and equity when reviewing objectives during the performance management process. Divisional calibration was also introduced to ensure consistent criteria are used to distinguish between expected and outstanding performance.

Employee development

HomeStart spent 4.27% of the overall salary budget on developing the professional skills of our employees through a range of tertiary and tailored study options. Some of the qualifications attained include:

- Masters of Business Administration
- Certificate IV in Finance and Mortgage Lending
- Diploma of Management.

We remained committed to building leadership capacity and provided the following training courses:

- Business Objective Setting
- Releasing Your Potential
- Mastering Feedback Conversations.

Consultative Committee

HomeStart's Consultative Committee shapes employment conditions, policies and practices by raising employment-related topics in conversations with management. The committee meets six-weekly and consists of a chairperson, a people manager and an employee representative from each division.

Workplace benefits

HomeStart offers flexible work arrangements to balance the needs of employees and the business. These include:

- five weeks annual leave
- voluntary flexible work arrangements, including job share, work from home, part-time work
- family, carer's and bereavement leave
- 16 weeks paid maternity leave (or 18 weeks for employees who have been employed for more 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 or programs 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.

Learning and growth statistics

DOCUMENTED INDIVIDUAL PERFORMANCE DEVELOPMENT PLAN

Employees with	% of workforce
A review within the past 12 months	92.7%
A review older than 12 months	0.0%
No review*	7.3%

** New employees at HomeStart*

CULTURAL AND LINGUISTIC DIVERSITY

	Male	Female	Total	% of workforce	SA community*
Number of employees born overseas	16	21	37	33.9%	22.1%
Number of employees who speak language(s) other than English at home	4	5	9	8.3%	14.4%

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

EMPLOYEE NUMBERS, GENDER AND STATUS

Total number of employees*	
Persons	109
Full-time equivalents (FTEs)	101.3

Gender	% employees	% FTEs
Male	45.0%	47.9%
Female	55.0%	52.1%

**Excludes employees on leave without pay*

Number of employees during the 2012-13 financial year	
Separated from HomeStart Finance	11
Recruited to HomeStart Finance	14

Number of employees at 30 June 2013	
On leave without pay	1

NUMBER OF EMPLOYEES BY SALARY BRACKET

Salary bracket	Male	Female	Total
$0 - $53 199	8	12	20
$53 200 - $67 699	9	18	27
$67 700 - $86 599	13	15	28
$86 600 - $109 299	8	4	12
$109 300+	11	11	22
Total	**49**	**60**	**109**

STATUS OF EMPLOYEES IN CURRENT POSITION

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	39.8	5.0	4.0	0.0	48.8
Female	45.0	5.0	3.0	0.0	53.0
Total	**84.8**	**10.0**	**7.0**	**0.0**	**101.8**

Number of employees	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	40	5	4	0	49
Female	52	5	3	0	60
Total	**92**	**10**	**7**	**0**	**109**

Learning and growth statistics

AVERAGE DAY'S LEAVE PER FULL-TIME EQUIVALENT EMPLOYEE

Leave type	2012-13	2011-12	2010-11	2009-10
Sick leave	5.6	6.1	7.4	5.9
Family carer's leave	1.3	1.5	1.8	1.3
Miscellaneous special leave	0.6	0.8	0.5	0.3

VOLUNTARY FLEXIBLE WORKING ARRANGEMENTS BY GENDER

Leave type	Male	Female	Total
Purchased leave	2	1	3
Compressed weeks	0	0	0
Part-time	1	20	21
Job share	0	3	3
Working from home	4	11	15

ABORIGINAL AND/OR TORRES STRAIT ISLANDER EMPLOYEES

Salary bracket	Aboriginal employees	Total employees	% Aboriginal employees	Target*
$0 - $53 199	0	20	0.0%	2.0%
$53 200 - $67 699	0	27	0.0%	2.0%
$67 700 - $86 599	1	28	3.6%	2.0%
$86 600 - $109 299	0	12	0.0%	2.0%
$109 300+	0	22	0.0%	2.0%
Total	**1**	**109**	**0.9%**	**2.0%**

** Target from South Australia's Strategic Plan*

Learning and growth 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%	6.2%
20-24	1	0	1	0.9%	9.7%
25-29	2	4	6	5.5%	10.9%
30-34	6	8	14	12.8%	9.8%
35-39	6	15	21	19.3%	10.1%
40-44	10	12	22	20.2%	11.8%
45-49	8	10	18	16.5%	11.2%
50-54	7	7	14	12.8%	11.3%
55-59	4	3	7	6.4%	9.0%
60-64	4	1	5	4.6%	6.1%
65+	1	0	1	0.9%	3.7%
TOTAL	**49**	**60**	**109**	**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 February 2013*

LEADERSHIP AND MANAGEMENT TRAINING EXPENDITURE

Training and development	Total cost	% of total salary expenditure
Total training and development expenditure	$451 935	4.27%
Total leadership and management development expenditure	$195 837	1.85%

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	-	-	-	-	3	1	-	-	3	75%	1	25%	100%

INTERNAL PROCESSES

Corporate governance

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

Under South Australian Government administrative arrangements, HomeStart is located within the Department for Transport and Infrastructure portfolio and falls under the Ministerial responsibility of the Minister for Housing and Urban Development, the Hon Tom Koutsantonis MP.

HomeStart's approach to corporate governance is guided by legislation, state government guidelines issued by the Department of Premier and Cabinet and the Department of Treasury and Finance, and principles of 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 2012-13 are identified on page 23.

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 and Urban Development 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 board has determined to undertake an annual review of its effectiveness to identify areas for improvement. The process for 2012-13 was facilitated internally via a survey of members. The survey results were considered by the board.

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. Meetings are also attended by 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. The CEO and General Manager, Treasury, Finance & Risk are also members of this committee. The committee ensures HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset, liability and capital management practices 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 Chief Executive of the Department of Premier and Cabinet. Board member remuneration information is provided at Note 12 to the financial statements.

Board member benefits

During or since the 2012-13 financial year, no board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included in Note 12 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 11 to the financial statements.

Risk management

HomeStart has an organisation-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's *Risk Management Policy Statement*, relevant Treasurer's Instructions and commercial best practice.

While risk management remains the primary responsibility of the board, each sub-committee has specific roles and responsibilities in relation to risk management. The Audit Committee monitors 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 staff and includes:

- identification, assessment (using Australian Standard 31 000) and recording of risks through 'Tickit on Demand', our online risk management system
- continuous monitoring and reassessment of risks and internal controls, prompted by Tickit's interactive email capability and regular discussion at team and executive level
- the identification and assessment of risk incidents
- comprehensive reporting
- 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 2012-13 financial year, HomeStart's arrears have risen from previously low levels to be slightly above the benchmark level.

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, Finance & 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 'Tickit - On Demand' risk management system facilitates a comprehensive assessment, communication and monitoring framework for these risks. 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 'Tickit on Demand' system against the relevant risk, investigated, and dealt with promptly to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

Compliance, internal control and assurance

Our 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.

Executive and management are required to confirm to the board that effective risk management, internal control and compliance practices have operated throughout the year.

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

External audit is undertaken 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 72.

The following internal audit functions in 2012-13 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

Jim Kouts

Sandra De Poi

Lindsay Nicholson

David Garrard

Sue Edwards

Chris Ward

Maria Palumbo

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 is Chairman of the South Australian Housing Trust Board and a member of the South Australian Government Finance Authority Advisory Board.

Jim Kouts – Deputy Chair

Appointed November 2005

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

Sandra De Poi

Appointed June 2005 to August 2012

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 strategic consultant with extensive and broad experience in business, finance, marketing and brand management. Mr Ward is also a Director of the South Australian Film Corporation (SAFC) and Australian Dance Theatre (ADT). He chairs the Risk and Audit Committee at SAFC and at ADT, is Deputy Chair and chairs the Governance Committee. Mr Ward is also an Executive Partner at UniSA. Until 2012, he worked with BankSA as General Manager, Operations.

Maria Palumbo

Appointed April 2013

Ms Palumbo is CEO of Common Ground Adelaide Ltd., a not-for-profit affordable housing company, and also the Chair of the Community Housing Council of SA. She was formerly a Director with Housing SA, responsible for regulating and contract managing not-for-profit housing and homelessness services across the state. As an accountant by trade, she has broad experience in a range of industries, from government and non-government sectors to mining and manufacturing.

Member	Board attendance	
	Eligible to attend*	Meetings attended
C Long	10	10
J Kouts	10	10
S De Poi	1	1
L Nicholson	10	9
D Garrard	10	9
S Edwards	10	9
C Ward	10	10
M Palumbo	3	3

**Board did not meet in July 2012 and January 2013.*

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
C Long	*	-
J Kouts	-	-
S De Poi	-	-
L Nicholson	6	6
D Garrard	6	6
S Edwards	6	5
C Ward	-	-
M Palumbo	-	-

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

Member	Asset and Liability Committee attendance	
	Eligible to attend	Meetings attended
C Long	*	-
J Kouts	11	11
S De Poi	2	1
L Nicholson	-	-
D Garrard	*	-
S Edwards	-	-
C Ward	11	11
M Palumbo	3	2

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

Statutory information

Work Health and Safety (WHS)

HomeStart places a high priority on providing and maintaining a safe working environment and safe systems of work for all employees. HomeStart aims to promote and continually improve the delivery of WHS by developing an enthusiastic safety culture of interdependence, complying with legislation, allocating appropriate resources and reducing risk through elimination wherever practicable.

HomeStart values include ethical business practices and the development of enthusiastic and motivated people in a safe workplace. This commitment is reflected in HomeStart's WHS system, the performance of which is monitored by our PCBUs (person conducting a business or undertaking), managers and supervisors.

HomeStart continues to apply performance standards and measures that meet the 'Safety and Wellbeing in the Public Sector Strategy 2010-2015' which embeds the Premier's Zero Harm Vision.

Sustainable commitment

The HomeStart WHS system currently captures key elements of legislative compliance, and integrates work, health and safety as a core business value to achieve improved performance outcomes. The WHS 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 provide HomeStart with access to:

- workers compensations claims management
- rehabilitation and return to work activities
- a hotline for managers, to ensure accidents and incidents are promptly reported, enabling rehabilitation and return-to-work support and early intervention initiatives
- online training opportunities.

Evidence to support HomeStart's commitment to WHS includes:

- continual promotion of, and access for all employees to, 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 and engagement surveys
- regular WHS Committee meetings which provide a consultative forum that can effectively address work health and safety matters arising
- quarterly workplace inspections
- regular Consultative Committee meetings to promote idea sharing and engage employees in decision making relating to their conditions of employment
- continued Employee Assistance Program to provide confidential guidance and advice for non-work related and work related matters.

During 2012-13, the following work health and safety activities took place:

- annual ergonomic assessments of employee workstations
- first aid training for relevant employees
- quarterly WHS Committee meetings
- quarterly workplace inspections
- review of WHS policies, procedures and guidelines
- free flu vaccinations for all employees
- Health and Wellbeing Week.

Financial accountability

HomeStart received and managed one (non-notifiable) workers compensation claim this year.

Expenditure for WHS for the year amounted to approximately $20 000 which was used to achieve outcomes for safety improvement, including upgrades to the online staff training system, the purchase of ergonomic equipment and mechanical aids, electrical testing and tagging of equipment, workplace assessments, Health and Wellbeing Week activities and other WHS 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 WHS Committee provides and reports on near misses, incidents, hazards, WHS 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 are assessed accordingly and corrected as soon as possible.

The current WHS system requires managers and staff 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 corrective actions are regularly applied to improve WHS 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.

WHS STATISTICS

Table 1: Agency gross workers compensation expenditure[1] and corrective action taken

Number of notifiable incidents pursuant to WHS Act Part 3	Nil
Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	Nil

[1] before 3rd party recovery

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

Table 2: Agency gross workers compensation expenditure for 2012-13 compared with 2011-12[2]

Expenditure	2012-13	2011-12	Variation + (-)	% Change + (-)
Income maintenance	$5,997.72	$0	$5,997.72	Undefined
Lump sum settlements redemptions – Sect. 42	$0	$0	$0	0%
Lump sum settlements permanent disability – Sect. 43	$0	$0	$0	$0
Medical/hospital costs combined	$4,194.18	$53.40	$4,140.78	Not meaningful
Other	$1,272.14	$0	$1,272.14	Undefined
Total claims expenditure	**$11,464.04**	**$53.40**	**$11,410.64**	**Not meaningful**

[2] Information available from the Self Insurance Management System (SIMS)

WHS STATISTICS

Table 3: Meeting safety performance targets[3]

	Base: 2009-10	Performance: 12 months to end of June 2013*			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	1	0	1	0
3. New workplace injury claims frequency rate	0.00	5.91	0	5.91	0.00
4. Lost time injury frequency rate ***	0.00	5.91	0	5.91	0.00
5. New psychological injury claims	0.00	0.00	0.00	0.00	0.00
6. Rehabilitation and return to work:					
6a. Early assessment within 2 days	0%	100.00%	80.00%	0	80%
6b. Early intervention within 5 days	0	0	0	0	90%
6c. Days lost < 10 days	0	0%	60.00%	0	60%
7. Claim determination:					
7a. Claims determined for provisional in 7 calendar days	0%	0	0%	0%	100%
7b. Claims to be determined in 10 business days	0%	100.00%	75.00%	0	75%
7c. Claims still to be determined after 3 months	0	0.00%	3.00%	0	3%
8. Income maintenance payments for recent injuries:					
8a. 2011-12 injuries (at 24 months development)	$0.00	$0	$0.00	$0	Below previous 2 years average
8b. 2012-13 injuries (at 12 months development)	$0.00	$5,997.72	$0.00	$5,997.72	Below previous 2 years average

[3] Information available from the Self Insurance Management System (SIMS) SIPS target report

* Except for Target 8, which is year-to-date (YTD). For Targets 5, 6c, 7a and 7b, 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):

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

Freedom of Information Act 1991 – Information Statement

HomeStart Finance is a statutory corporation established by the Government of South Australia 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 Government of South Australia.

HomeStart delivers a residential mortgage lending program in conjunction with a network of four lending agencies (including BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis) 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 fees and charges guide
- 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. 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 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 *(Contracts which exceed $4 million (GST inclusive) and extend beyond a single year - refer Notes 34.1 and 34.2 to the Financial Statements) :*

Front End Loan System
Sandstone Technology Pty Ltd
Design, develop and implement a new Front End Loan System for processing loan applications.

Overseas travel

No HomeStart employees made an overseas trip during 2012-13 for work related purposes.

Consultancy expenditure 2012-13

		Number	Cost
Total consultancies below $10 000		3	**$10 558**
Total Consultancies $10 000 – $50 000	**Purpose of consultancy**	3	**$45 920**
PricewaterhouseCoopers	Advice on Front End Loan System (FELS) project risks		
Mercer Consulting Pty Ltd	Human resource evaluations and advice		
Hewitt Associates	Employee position and remuneration reviews		
Total consultancies above $50 000		0	**$0**
Total consultancies		6	**$56 478**

FINANCIALS

Sustainable financial management

HomeStart's financial results for 2012-13 were strong and can be attributed to our continued focus on achieving strategic objectives and prudent financial, risk and asset management policies balanced with our social obligations for customers and stakeholders, despite the challenges of a difficult housing market.

Financial performance targets, as set out in HomeStart's agreed financial operating parameters with the state government, were achieved this year including an operating profit before tax of $16.4 million ($14.4 million, 2011-12) against a budget of $14.98 million, representing a Return on Equity of 10.26% against a target of 9%. Payments to government amounted to $38.9 million this year and have totalled $374.9 million since HomeStart's inception. Under these agreed financial parameters, HomeStart received a Community Service Obligation (CSO) reimbursement of $5.4 million in 2012-13 ($9.5 million, 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) was $1800 million against a borrowing limit of $2105 million. In the interest of prudent financial management, HomeStart has set minimum capital levels. Our capital adequacy ratio was 14.1% (13.6%, 2011-12) against a target of 12%. 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

2012-13 saw a small decline in the lending portfolio to $1960 million ($1973 million, 2011-12) due to lending volumes being lower than expected, reflecting the subdued real estate market and a difficult period for home finance providers over the last 12 months. Also contributing to this portfolio result were discharges being slightly over budget. Despite wider economic and financial challenges, HomeStart has maintained its commitment to the ongoing availability of some higher risk products in response to market needs while at the same time adopting 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.

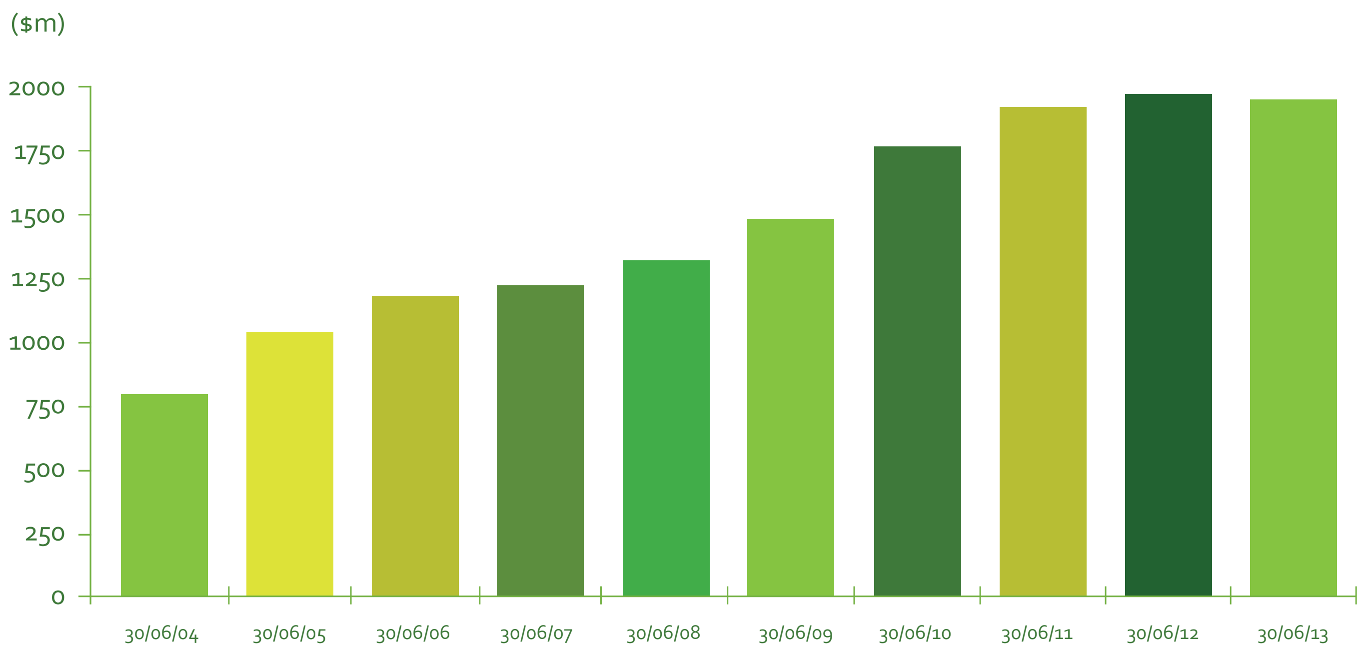
Funding

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.

PORTFOLIO SIZE - VALUE OF LOANS OUTSTANDING



Risk Transfer Vehicle (RTV)

In July 2000, HomeStart's Board of Management 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 partial contribution toward write-offs, which is invested in various asset classes in line with the RTV asset allocation strategy.

This year, the RTV returned 5.25% with a total return of 4.28% since inception. Initially funded with $20 million, the RTV investments now total $51.6 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 are also engaged to undertake an annual review of projected future loan loss levels.

Provisioning

HomeStart has recognised specific and collective provisions of $20.1 million ($19.2 million in 2011-12) 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 $8.78 million ($9.16 million, 2011-12). 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 indicators	2008	2009	2010	2011	2012	2013
Operating profit ($m)	6.8	10.2	16.8	15.5	14.4	16.4
Return on Equity	8.43%	6.95%	11.41%	9.92%	9.22%	10.26%
Net interest margin	0.73%	1.2%	0.94%	0.67%	0.84%	1.16%
Balance sheet strength						
Capital ($m)	153.4	138.9	157.9	155.1	154.5	164.2
Provisions ($m)	11.8	14.0	15.4	18.1	19.2	20.1
Loan assets ($m)	1258.7	1432.7	1725.2	1901.9	1954.5	1941.9
RTV net assets ($m)	41.9	39.3	42.6	46.3	48.6	51.6
Net loan losses ($m)	0.01	0.07	0.04	0.13	0.54	0.84

Financial contributions to the state government

$374.9 million paid to the state government since inception

Payment Type ($m)	1995[1] - 2008	2009	2010	2011	2012	2013	TOTAL
Guarantee fee	89.6	7.6	10.7	23.8	26.9	27.1	185.7
SAFA[2] admin fee	6.7	1.0	1.1	1.1	1.1	1.1	12.1
Income tax	36.2	3.3	3.4	4.7	5.2	4.4	57.2
Dividends	41.9	5.3	5.6	7.3	6.2	6.3	72.6
Capital Repatriation	47.3	0.0	0.0	0.0	0.0	0.0	47.3
Total paid	**221.7**	**17.2**	**20.8**	**36.9**	**39.4**	**38.9**	**374.9**

[1] *No payments made prior to 1995*

[2] *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	2829	98.50%	$8 382 523	99.21%
Paid late, within 30 days of due date	28	0.97%	$54 879	0.65%
Paid more than 30 days from due date	15	0.52%	$12 118	0.14%

Certification of the Financial Statements

For the year ended 30 June 2013

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 2013 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 HomeStart Finance 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
17 September 2013

Jim Kouts
Deputy Chair
17 September 2013

John Oliver
Chief Executive Officer
17 September 2013

Ian Wheaton
General Manager, Treasury, Finance & Risk
17 September 2013

Statement of Profit or Loss and Other Comprehensive Income

as at 30 June 2013

	Note no.	2013 $'000	2012 $'000
Interest income	5	125 409	142 369
Interest expense	5	(65 670)	(87 211)
Net interest income	**5**	**59 739**	**55 158**
Other income	6	13 083	17 026
Net gain/(loss) from disposal of assets	7	1	(2)
Bad and impaired loans expense	8	(4 095)	(3 694)
Loan Manager fees		(6 659)	(6 883)
Employee expenses	10	(10 892)	(10 278)
Depreciation and amortisation expense	14	(558)	(541)
Other expenses	15	(7 166)	(9 376)
Profit before income tax equivalents and guarantee fee expenses		43 453	41 410
Government guarantee fee	9	(27 100)	(27 003)
Profit before income tax equivalents		**16 353**	**14 407**
Income tax equivalents expense	2.5	(4 906)	(4 322)
Profit after income tax equivalents		**11 447**	**10 085**
Items that may be reclassified subsequently to profit if specific conditions are met			
Change in fair value of derivatives		4 308	(7 397)
Change in fair value of available-for-sale assets	19.4	803	-
Total comprehensive result		**16 558**	**2 688**

The total comprehensive result is attributable to the state government as owner.
The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2013

	Note no.	2013 $'000	2012 $'000
Assets			
Cash and cash equivalents	36.1	4 373	2 781
Financial investments designated at fair value through profit or loss	17	108 299	106 469
Financial investments – available-for-sale	19	13 958	-
Financial investments – held-to-maturity	18	-	12 089
Loans and advances	20	1 853 133	1 866 809
Other financial assets	21	1 136	1 044
Property, plant and equipment	22	1 222	1 361
Intangible assets	23	3 572	1 561
Other assets	24	303	290
Total assets		**1 985 996**	**1 992 404**
Liabilities			
Payables	25	6 984	7 401
Derivative financial instruments	32.2.2	6 267	10 587
Short-term borrowings	26	587 560	660 364
Employee benefits	27	2 151	1 958
Income tax equivalents payable	28	2 659	2 174
Provision for dividend	29	576	37
Other liabilities	30	3 594	3 368
Long-term borrowings	26	1 212 000	1 152 000
Total liabilities		**1 821 791**	**1 837 889**
Net assets		**164 205**	**154 515**
Equity			
Reserves	31	3 300	(1 429)
Retained earnings	31	160 905	155 944
Total equity		**164 205**	**154 515**

Total equity is attributable to the state government as owner.

Unrecognised contractual commitments	34
Contingent liabilities	35

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 2013

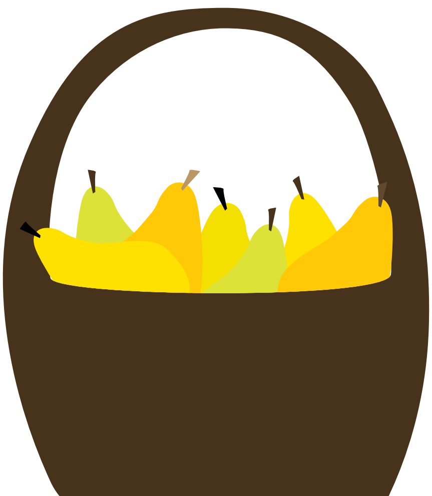
	Note no.	Retained earnings $'000	General reserve for credit losses $'000	Derivatives valuation reserve $'000	Available-for-sale revaluation reserve $'000	Total $'000
Balance at 30 June 2011		**152 264**	**8 804**	**(3 190)**		**157 878**
Profit after income tax equivalents expense for 2011-12		10 085	-	-	-	10 085
Derivative loss recognised directly in equity	2.13 32.4.2	-	-	(7 397)	-	(7 397)
Total comprehensive result for 2011-12		**10 085**	**-**	**(7 397)**	**-**	**2 688**
Transfer to/from credit loss reserve	31	(354)	354	-	-	-
Transactions with state government as owner						
Dividends paid/payable	29	(6 051)	-	-	-	(6 051)
Balance at 30 June 2012		**155 944**	**9 158**	**(10 587)**	**-**	**154 515**
Profit after income tax equivalents expense for 2012-13		11 447	-	-		11 447
Derivative gain recognised directly in equity	2.13 32.4.2	-		4 308		4 308
Available-for-sale gain recognised directly in equity					803	803
Total comprehensive result for 2012-13		**11 447**	**-**	**4 308**	**803**	**16 558**
Transfer to/from credit loss reserve	31	382	(382)	-		-
Transactions with state government as owner						
Dividends paid/payable	29	(6 868)	-	-	-	**(6 868)**
Balance at 30 June 2013		**160 905**	**8 776**	**(6 279)**	**803**	**164 205**

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 2013

	Note. no	2013 $'000	2012 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		53	83
Investments		1605	724
Loans and advances		122 077	139 427
Fees and commissions received		621	730
Bad debts recovered		173	149
EquityStart grant received		743	810
Community Service Obligation subsidy received		5 400	9 544
Other		901	498
Total cash inflows from operating activities		131 573	151 965
Cash outflows			
Payments to employees		(10 639)	(9 984)
Payments to suppliers		(5 739)	(5 618)
Payments to loan managers		(6 292)	(6 590)
Borrowing costs paid		(66 130)	(88 059)
Government guarantee fee paid		(27 121)	(26 919)
Income tax equivalents paid		(4 421)	(5 154)
Total cash outflows from operating activities		(120 342)	(142 324)
Net cash provided by operating activities	36.2	11 232	9 641

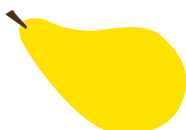


Statement of Cash Flows

For the year ended 30 June 2013

	Note. no	2013 $'000	2012 $'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment	7	1	5
Proceeds from maturity of held to maturity investments		986	9 000
Proceeds from investments designated at fair value through profit or loss		3 298	19 236
Shared appreciation components of Breakthrough Loan repaid	33.4	6 582	4 417
Customer loans repaid		278 444	237 680
Total cash inflows from investing activities		**289 311**	**270 338**
Cash outflows			
Payments for property, plant and equipment		(316)	(335)
Payments for software		(2 097)	(1 424)
Payments for investments in bonds		(2 112)	(8 925)
Payments for investments designated at fair value through profit or loss		(4 000)	(20 118)
Shared appreciation component of Breakthrough Loan settled	33.4	(8 349)	(10 551)
Customer loans settled		(262 943)	(284 999)
Total cash outflows from investing activities		**(279 817)**	**(326 352)**
Net cash used in investing activities		**9 494**	**(56 014)**
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		1 272 407	1 521 564
Total cash inflows from financing activities		**1 272 407**	**1 521 564**
Cash outflows			
Dividend paid		(6 329)	(6 217)
Repayment of borrowings		(1 285 211)	(1 470 000)
Total cash outflows from financing activities		**(1 291 540)**	**(1 476 217)**
Net cash provided by financing activities		**(19 133)**	**45 347**
Net (decrease)/increase in cash and cash equivalents		**1 592**	**(1 026)**
Cash and cash equivalents at the beginning of the financial year		2 781	3 807
Cash and cash equivalents at the end of the financial year	36.1	**4 373**	**2 781**

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 2013

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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 2013 was $1 805.7 million ($1 818.5 million, 2011-12).

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 fifth anniversary. As at 30 June 2013 the interest rate applying to Advantage Loans was 3.18% (1.23%, 2011-12). The outstanding value of Advantage Loans at 30 June 2013 was $45.2 million ($44.8 million, 2011-12).

For the year ended 30 June 2013 HomeStart received a Community Service Obligation (CSO) subsidy payment of $2.5 million ($2.68 million, 2011-12) 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 2013 was $38.8 million ($39.7 million, 2011-12).

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 Profit or Loss and Other 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 investments at fair value through profit or loss; financial investments 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 12 month period and presented in Australian currency.

2.1.1 Statement of compliance

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

2.1.2 Changes in accounting policies

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (AASB 2011-9), applies to annual reporting periods beginning on or after 1 July 2012. The main change resulting from the AASB 2011-9 is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially classifiable to profit or loss subsequently.

HomeStart did not voluntarily change any of its accounting policies during 2012-13.

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 reporting period ended 30 June 2013. HomeStart has assessed the impact of the new and amended standards and interpretations and except for AASB 9 *Financial Instruments* (AASB 9) 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 2016 and could change the classification and measurement of financial assets. The International Accounting Standards Board (IASB) is currently undertaking a project that may result in limited amendments to the current classification and measurement requirments in AASB 9 and add in new requirements to address the impairment of financial assets and hedge accounting. The extent of the impact of the adoption of AASB 9 has not been determined and depends on the facts existing at the date of initial application.

2.2 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.

2.3 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%, 2011-12) 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 Profit or Loss and Other 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 Profit or Loss and Other 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 the 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 Profit or Loss and Other 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 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 Communities and Social Inclusion to compensate HomeStart for costs incurred in relation to EquityStart Loans.

Government grants relating to costs are deferred and recognised in the Statement of Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income as they occur.

Distribution income is recognised when received.

For financial investments classified as held-to-maturity or available-for-sale, 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 has been 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other 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 2013 HomeStart did not hold any held-to-maturity investments. As at 30 June 2012 HomeStart held bank bills as well as investment bonds issued by state government and non-government institutions. These were reclassified to available-for-sale during the period.

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.

As at 30 June 2013 HomeStart classified its investments in bonds issued by state governments and non-government institutions as available-for-sale. As at 30 June 2012 HomeStart did 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.

Impairment of financial assets carried at amortised cost

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).

The carrying amount of assets carried at amortised cost is reduced through the use of a provision account. The amount of the loss is recognised in the Statement of Profit or Loss and Other Comprehensive Income. 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.

Impairment of available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised in the available-for-sale revaluation reserve is reclassified to profit or loss.

The amount of the cumulative loss that is reclassified is the difference between the acquisition cost (net of any amortisation) and current fair value, less any impairment loss previously recognised in profit or loss.

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 Profit or Loss and Other 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 Profit or Loss and Other 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 Australian Accounting Standards 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 Profit or Loss and Other Comprehensive Income.

2.12 Investments

Held-to-maturity investments

As at 30 June 2013 HomeStart did not classify any investments as held-to-maturity ($12.1 million, 2011-12).

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. HomeStart does not classify any financial assets as held to maturity if the entity has, during the current annual reporting period or during the two preceding annual reporting periods, sold or reclassified more than an insignificant amount of held-to-maturity investments before 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 Profit or Loss and Other 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income in the period in which they arise.

Available-for-sale investments

As at 30 June 2013 HomeStart classified its investments in government bonds with a fair value of $14.0 million as available-for-sale ($nil million, 2011-12).

When purchased, available-for-sale investments are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the available-for-sale revaluation reserve except for interest, which is recognised directly in the income statement. When the investment is sold, the cumulative gain or loss relating to the investment is transferred from the available-for-sale revaluation reserve to the Statement of Profit or Loss and Other Comprehensive Income.

Where there is objective evidence of impairment of an available-for-sale investment, the cumulative loss relating to that asset is removed from equity and recognised in the Statement of Profit or Loss and Other Comprehensive Income. If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment event, the loss is reversed through the Statement of Profit or Loss and Other Comprehensive Income.

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 32.2.2. 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income with all subsequent gains or losses recognised through the Statement of Profit or Loss and Other 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 Profit or Loss and Other 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 $1000 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 $1000.

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 Profit or Loss and Other 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

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services paid by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and and periods of service. These assumptions are based on employee data over state government entities. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with duration that match, as closely as possible, the estimated future cash outflows.

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 12 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.

The liability for salaries and wages is 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 12 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 12 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, 33.2, 33.3
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough Loan	2.12, 33.2, 33.3
Fair value of subsidised loans and advances	2.6.2
Loan origination fees received or receivable	2.6.4
Loan origination fees paid or payable	2.7.4
Provision for impairment of loans and advances	2.11
Unearned income (EquityStart grant)	2.6.5, 30.2
General reserve for credit losses	2.11, 31
Derivative financial instruments	2.13, 33.2

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	2013 $'000	2012 $'000
Loans and advances	120 511	136 714
Subsidised loans effective interest income	3 932	3 970
Subsidised loans fair value expense	(1 810)	(1 164)
Loan origination income amortisation	2 717	2 767
Deposits with banks	59	82
Total interest received/ receivable from entities external to the state government	**125 409**	**142 369**
Interest paid/payable to entities within the state government		
Borrowings from SAFA	(65 670)	(87 211)
Total interest paid/payable to entities within the state government	**(65 670)**	**(87 211)**
Net interest income	**59 739**	**55 158**

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 $1.7 million ($1.86 million, 2011-12) 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 Profit or Loss and Other 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	2013 $'000	2012 $'000
Fees and charges	3 587	3 552
Bad debts recovered	173	276
Realised change in fair value of loans	249	305
Managed funds distribution	596	433
Unrealised change in fair value of investments	3	75
Realised change in fair value of investments	-	48
Interest received from investments at fair value through profit or loss	906	444
Interest received from held-to-maturity investments	-	711
Interest received from available-for-sale investments	755	-
Other	78	74
Total other income received/receivable from entities external to the state government	**6 347**	**5 918**
Other income received/receivable from entities within the state government		
Managed funds distribution	219	829
EquityStart grant	898	844
Community Service Obligation (CSO) subsidy	5 400	9 117
Other	219	318
Total other income received/receivable from entities within the state government	**6 736**	**11 108**
Total other income	**13 083**	**17 026**

EquityStart grant funds and CSO subsidy received

During the financial year, HomeStart received $0.7 million ($0.8 million, 2011-12) 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 30.2 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). No such payment was received in the financial year ended 30 June 2013 ($4.37 million, 2011-12).

NOTE 7 Net loss from disposal of assets

	2013 $'000	2012 $'000
Proceeds from disposal of assets	1	5
Net book value of assets disposed	-	(7)
Total net loss from disposal of assets	**1**	**(2)**

NOTE 8 Bad and impaired loans expense

	2013 $'000	2012 $'000
Bad and impaired loans expensed	844	536
Increase in provision for impairment	3 251	3 158
Total bad and impaired loans expense	**4 095**	**3 694**

NOTE 9 Government guarantee fee

	2013 $'000	2012 $'000
Government guarantee fee paid or payable to entity within the state government	27 100	27 003
Total government guarantee fee paid to entity within the state government	**27 100**	**27 003**

HomeStart paid a guarantee fee of 1.5% of outstanding borrowings to the Department of Treasury and Finance in 2012-13 (1.5%, 2011-12). From 1 July 2013 HomeStart will pay a guarantee fee of 1.6% of outstanding borrowings.

NOTE 10 Employee expenses, remuneration and number of employees

	2013 $'000	2012 $'000
Salaries and wages	9 131	8 479
Long service leave	195	481
Annual leave	6	35
Employment on-costs – superannuation	834	783
Employment on-costs – other	482	235
Board and committee fees	244	265
Total employee expenses	**10 892**	**10 278**

Remuneration of employees	2013 No.	2012 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
$134 000 to $137 999	n/a	1
$138 000 to $147 999	4	2
$158 000 to $167 999	-	2
$188 000 to $197 999	-	1
$198 000 to $207 999	1	-
$228 000 to $237 999	-	1
$238 000 to $247 999	-	1
$248 000 to $257 999	2	-
$258 000 to $267 999	-	1
$328 000 to $337 999	-	1
$338 000 to $347 999	1	-
$528 000 to $537 999*	1	-
Total number of employees	**9**	**10**

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, termination payments, superannuation contributions, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits and any other salary sacrifice benefits. The total remuneration received by these employees for the year was $2.14 million ($2.01 million, 2011-12).

Number of employees

HomeStart employed 110 people at the end of the reporting period (compared with 107 in 2011-12).

*This band includes a termination payment as well as regular remuneration paid prior to redundancy.

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)
- Deborah Dickson (General Manager People and Strategy)
- John Rolfe (General Manager, Retail)
- Ian Wheaton (General Manager Treasury, Finance & Risk).

John Comley (General Manager Corporate Services and Chief Financial Officer) held authority and responsibility for planning, directing and controlling the activities of HomeStart from the start of the financial year until 18 April 2013.

Key management personnel compensation

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

	2013 $	2012 $
Short-term employee benefits	1 158 734	1 181 844
Termination benefits	308 496	-
Long-term employee benefits (long service leave)	33 062	29 256
Long-term employee benefits (amounts paid to superannuation plans)	102 925	79 108
Total key management personnel compensation	**1 603 217**	**1 290 208**

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 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)
- Sue Edwards
- David Garrard
- Lindsay Nicholson
- Chris Ward.

Sandra De Poi was a member of the Board of HomeStart from the start of the financial year until her resignation on 29 August 2012.

Maria Palumbo was a member of the Board of HomeStart from her appointment on 4 April 2013 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:

	2013 No	2012 No
Short-term benefits (note 10)	243 914	265 453
Long-term employee benefits (amounts paid to superannuation plans)	21 952	23 891
Total board members' remuneration	**265 866**	**289 344**

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

	2013 No	2012 No
$ 0 - $ 9 999	2	-
$30 000 - $39 999	3	4
$40 000 - $49 999	2	2
$50 000 - $59 999	1	1
Total number of board members	**8**	**7**

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	2013 $'000	2012 $'000
Other office and computer equipment	238	189
Total depreciation	**238**	**189**
Amortisation		
Leasehold improvements	217	206
Intangible assets	103	146
Total amortisation	**320**	**352**
Total depreciation and amortisation	**558**	**541**

NOTE 15 Other expenses

		2013 $'000		2012 $'000
Other expenses arising from transactions with entities within the state government				
External auditor's remuneration		156		154
Valuer General services		13		11
Insurance		86		77
Total other expenses arising from transactions with entities within the state government		**255**		**242**
Other expenses arising from transactions with entities external to the state government				
Unrealised change in fair value of loans[1]		1 465		3 603
Office accommodation (minimum lease payments)		849		826
Marketing, product development and advertising		1 230		1 009
Internal audit fees		315		294
Loan administration		237		189
Information technology		564		532
Consultants' fees		56		119
Human resources and staff development		551		615
Other		1 644		1 947
Total other expenses arising from transactions with entities external to the state government		**6 911**		**9 134**
Total other expenses		**7 166**		**9 376**
The number and dollar amount of consultancies paid/payable that fell within the following bands:	**No**	**2013 $'000**	**No**	**2012 $'000**
Below $10 000	3	10	4	20
Between $10 000 and $50 000	3	46	4	99
Total paid/payable to the consultants engaged	**6**	**56**	**8**	**119**

[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

	2013 $'000	2012 $'000
Audit fees paid/payable to the Auditor-General's Department		
relating to the audit of financial statements	156	154
Total audit fees – state government entities	**156**	**154**

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

	2013 $'000	2012 $'000
Financial investments designated at fair value through profit or loss with entity within the state government		
SAFA Cash Management Fund	6 544	6 583
Total financial investments designated at fair value through profit or loss with entity within the state government	**6 544**	**6 583**
Financial investments at fair value through profit or loss with entities external to the state government		
Term Deposits	17 085	20 118
Unit Trusts	14 121	9 521
Breakthrough Loan (shared appreciation component)	70 549	70 247
Total financial investments designated at fair value through profit or loss with entities external to the state government	**101 755**	**99 886**
Total financial investments designated at fair value through profit or loss	**108 299**	**106 469**

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

	2013 $'000	2012 $'000
At call	20 665	16 104
Not longer than 3 months	4 000	4 000
Longer than 3 months and not longer than 12 months	13 085	16 118
Longer than 5 years	70 549	70 247
Total investments designated at fair value through profit or loss	**108 299**	**106 469**

17.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 32.4.3. and 32.4.4

NOTE 18 Financial investments - held to maturity

18.1 Financial investments – held-to-maturity

	2013 $'000	2012 $'000
Financial investments – held-to-maturity with entities external to the state government		
Bonds	-	12 089
Total financial investments – held-to-maturity	**-**	**12 089**

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

	2013 $'000	2012 $'000
Longer than 12 months and not longer than 5 years	-	9 034
Longer than 5 years	-	3 055
Total financial investments – held-to-maturity	**-**	**12 089**

18.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 32.4.3.

18.4 Reconciliation of held-to-maturity investments

	2013 $'000	2012 $'000
Opening balance at 1 July	**12 089**	**12 103**
Reclassification to available-for-sale	(11 093)	-
Acquisitions	-	8 925
Disposals	(986)	(9 000)
Amortisation	(10)	61
Closing balance at 30 June	**-**	**12 089**

On 19 October 2012 HomeStart sold a bond with a face value of $1 million and maturity date of 25 February 2014. From this time it has reclassified the remaining held-to-maturity investment portfolio as available-for-sale, in accordance with AASB 139.

NOTE 19 Financial investments – available-for-sale

19.1 Financial investments – available-for-sale

	2013 $'000	2012 $'000
Financial investments – held with entities external to the state government		
Bonds	13 958	-
Total financial investments – available-for-sale	**13 958**	**-**

19.2 Maturity profile of HomeStart's financial investments – available-for-sale

	2013 $'000	2012 $'000
Longer than 3 months and not longer than 12 months	4 094	-
Longer than 12 months and not longer than 5 years	6 649	-
Longer than 5 years	3 215	-
Total financial investments – held-to-maturity	**13 958**	**-**

19.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 32.4.3.

19.4 Reconciliation of available-for-sale investments

	2013 $'000	2012 $'000
Opening balance at 1 July	**-**	**-**
Reclassification from held-to-maturity	11 093	-
Acquisitions	2 112	-
Disposals	-	-
Amortisation	(50)	-
Change in fair value (recognised directly in equity)	803	-
Closing balance at 30 June	**13 958**	**-**

Information in relation to the reclassification of investments from held-to-maturity to available-for-sale is provided in note 18.4.

NOTE 20 Loans and advances

20.1 Loans and advances

	2013 $'000	2012 $'000
Primary loans	1 805 740	1 818 512
Subsidised loans	85 957	86 418
Gross loans and advances	**1 891 697**	**1 904 930**
Fair value adjustment	(15 459)	(16 050)
Deferred loan fee income	(5 377)	(5 586)
Deferred loan fee expense	2 380	2 732
Specific provisions for impairment	(10 596)	(9 247)
Collective provision for impairment	(9 512)	(9 970)
Net loans and advances	**1 853 133**	**1 866 809**
Specific provision for impaired loans		
Opening balance	9 247	8 222
Bad debts written-off	(2 360)	(2 070)
Impairment expense	3 709	3 095
Closing balance	**10 596**	**9 247**
Collective impairment provision		
Opening balance	9 970	9 908
Impairment expense	(458)	62
Closing balance	**9 512**	**9 970**
Total provision for impairment	**20 108**	**19 217**

20.2 Risk exposures

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided in note 32.2.1.

NOTE 21 Other financial assets

	2013 $'000	2012 $'000
Other financial assets – entities within the state government		
Accrued financial investment income	16	22
EquityStart grant receivable	136	121
Other	14	31
Total other financial assets – entities within the state government	**166**	**174**
Other financial assets – entities external to the state government		
Deferred financial investment income	138	146
Accrued interest on housing loans and advances	313	348
Accrued interest on cash at bank	11	5
Accrued financial investment income	455	325
GST recoverable	47	45
Other	6	1
Total other financial assets – entities external to the state government	**970**	**870**
Total other financial assets	**1 136**	**1 044**

NOTE 22 Property, plant and equipment

	2013 $'000	2012 $'000
Leasehold improvements		
Leasehold improvements at cost	2 249	2 202
Accumulated depreciation	(1 604)	(1 392)
Total leasehold improvements	**645**	**810**
Other office and computer equipment		
Other office and computer equipment at cost	3 304	3 093
Accumulated depreciation	(2 727)	(2 542)
Total other office and computer equipment	**577**	**551**
Total property, plant and equipment	**1 222**	**1 361**

	Leasehold improvements $'000	Other office and computer equipment $'000	Total $'000
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**
Additions	52	264	316
Disposals – at cost	(5)	(53)	(58)
Disposals – accumulated depreciation	5	53	58
Depreciation and amortisation	(217)	(238)	(455)
Carrying amount at 30 June 2013	**645**	**577**	**1 222**

NOTE 23 Intangible assets

	2013 $'000	2012 $'000
Software at cost	4 989	2 875
Accumulated amortisation	(1 417)	(1 314)
Total software	**3 572**	**1 561**
Carrying amount at 1 July	**1 561**	**283**
Additions	2 114	1 424
Disposals	-	-
Amortisation	(103)	(146)
Carrying amount at 30 June	**3 572**	**1 561**

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

NOTE 24 Other assets

	2013 $'000	2012 $'000
Other assets – entities external to the state government		
Prepayments	303	290
Total other assets – entities external to the state government	**303**	**290**
Total other assets	**303**	**290**

NOTE 25 Payables

25.1 Payables

	2013 $'000	2012 $'000
Payables to entities within the state government		
Creditors	4	-
Accrued administration expenses	166	165
Employment on-costs	385	326
Accrued interest payable on borrowings	3 038	3 614
Accrued interest payable on derivatives	322	194
Accrued guarantee fee payable	2 211	2 232
Total payables to entities within the state government	**6 126**	**6 531**
Payables to entities external to the state government		
Creditors	299	289
Accrued administration expenses	68	106
Accrued loan manager fees	491	475
Total payables to entities external to the state government	**858**	**870**
Total payables	**6 984**	**7 401**

25.2 Settlement profile of HomeStart's payables

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

NOTE 26 Borrowings

26.1 Interest bearing liabilities

	2013 $'000	2012 $'000
Short-term borrowings payable to entity within the state government		
Short-term borrowings	587 560	660 364
Total short-term borrowings payable to entity within the state government	**587 660**	**660 364**
Long-term borrowings payable to entity within the state gov ernment		
Long-term borrowings	1 212 000	1 152 000
Total long-term borrowings payable to entity within the state government	**1 212 000**	**1 152 000**
Total interest bearing liabilities	**1 799 560**	**1 812 364**

26.2 Security

All HomeStart borrowings are unsecured.

26.3 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 32.3 and 32.4 respectively.

NOTE 27 Employee benefits

27.1 Employee benefits

	2013 $'000	2012 $'000
Accrued salaries	-	8
Annual leave	640	634
Long service leave	1 511	1 316
Total employee benefits	**2 151**	**1 958**

27.2 Aggregate employee benefits

	2013 $'000	2012 $'000
Accrued salaries		
On-costs	77	54
Provision for employee benefits	-	8
Total accrued salaries	**77**	**62**
Annual leave		
On-costs	89	88
Provision for employee benefits	640	634
Total annual leave	**729**	**722**
Long service leave		
On-costs	219	184
Provision for employee benefits	1 511	1 316
Total long service leave	**1 730**	**1 500**
Total employment on-costs (note 25)	385	326
Total provision for employee benefits	**2 151**	**1 958**
Total employee benefits and related on-costs	**2 536**	**2 284**

27.3 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability. This year, the actuarial assessment performed by the Department of Treasury and Finance was used to calculate the liability rather than using a short hand measurement technique for the calculation of the liability. The effect of the change relating to the current period is immaterial.

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 increased from 3.00% in 2012 to 3.75% in 2013.

The net financial effect of the changes in methodology and actuarial assumptions in the current financial year is immaterial. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions, a key assumption being the long term discount rate.

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

27.4 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 12 months after the reporting date.

NOTE 28 Income tax equivalents payable

	2013 $'000	2012 $'000
Income tax equivalents payable to entity within the state government	2 659	2 174
Total tax equivalents liability payable to entity within the state government	**2 659**	**2 174**

NOTE 29 Provision for dividend

	2013 $'000	2012 $'000
Dividend payable to entity within the state government	576	37
Total dividend payable to entity within the state government	**576**	**37**

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 2013, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2011-12). This amounts to a total dividend of $6.87 million in respect of the year ended 30 June 2013 ($6.05 million, 2011-12). The Minister and Treasurer approved this recommendation in June 2013.

HomeStart paid a dividend amount of $6.30 million to the Department of Treasury and Finance prior to the end of the financial year ($6.01million, 2011-12). HomeStart will be required to pay a further dividend amount of $0.57 million in respect of the financial year ended 30 June 2013 ($0.04 million, 2011-12). These amounts are disclosed as a dividend paid/payable.

NOTE 30 Other liabilities

30.1 Other liabilities

	2013 $'000	2012 $'000
Other liabilities payable to or arising from transactions with entities within the state government		
Unearned income (EquityStart grant)	1 199	1 339
Total other liabilities payable to or arising from transactions with entities within the state government	**1 199**	**1 339**
Other liabilities payable to or arising from transactions with entities external to the state government		
Workers compensation provision	21	32
Wyatt Benevolent Institution	2 159	1 805
Make good provision	211	188
City of Salisbury	4	4
Total other liabilities payable to or arising from transactions with entities external to the state government	**2 395**	**2 029**
Total other liabilities	**3 594**	**3 368**

30.2 Unearned income (EquityStart grant)

	2013 $'000	2012 $'000
Opening balance	**1 339**	**1 422**
Amounts received/receivable	758	761
Amount recognised as earned (note 6)	(898)	(844)
Closing balance	**1 199**	**1 339**

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 Profit or Loss and Other Comprehensive Income over the period necessary to match them with the costs that they are intended to compensate.

30.3 Make good provision

	2013 $'000	2012 $'000
Opening balance	**188**	**187**
Unwinding of discount arising from the passage of time	23	1
Closing balance	**211**	**188**

NOTE 31 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. Amounts in the general reserve for credit losses will not be reclassified to profit.

Derivatives valuation reserve

The derivatives valuation reserve was created to recognise the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges. When a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, the gain or loss on the instrument previously recognised in the derivatives valuation reserve is reclassified from equity to profit or loss.

Available-for-sale revaluation reserve

The available-for-sale revaluation reserve was created to recognise the gain or loss on investments that are classified as available-for-sale. A gain or loss on an available-for-sale financial asset is recognised in the available-for-sale revaluation reserve until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in the available-for-sale revaluation reserve and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss even though the financial asset has not been derecognised.

NOTE 32 Financial risk management

32.1 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.

32.2 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.

32.2.1 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:

	2013 $'000	2012 $'000
Past due but not impaired		
Gross carrying value	108 510	91 049
Fair value of collateral	162 840	140 403
Impaired		
Gross carrying value, before specific impairment provisions	44 957	39 152
Specific provision for impairment	(10 596)	(9 247)
Net impaired loans and advances	34 361	29 905
Fair value of collateral	45 896	40 093

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 27% (28% 2011-12) 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 30% (31% 2011-12) 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 20).

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.

	2013 $'000	2012 $'000
Expected losses used for internal operational management	16 445	17 532
Provision for impairment in the financial statements	(20 108)	(19 217)
Difference	**(3 663)**	**(1 685)**

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 $1 853.13 million ($1 866.81 million 2011-12).

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.

	2013 $'000	2012 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 422 139	1 385 779
Moderate risk	289 917	358 200
High risk	17 685	20 303
Gross loans and advances neither renegotiated nor past due	***1 729 741***	***1 764 282***
Renegotiated (1)		
Low risk	5 935	6 691
Moderate risk	1 901	2 992
High risk	653	764
Gross loans and advances renegotiated	***8 489***	***10 447***
Past due but not impaired (2)		
Low risk	48 162	30 027
Moderate risk	45 410	44 133
High risk	14 938	16 889
Gross loans and advances past due but not impaired	***108 510***	***91 049***
Total not impaired		
Low risk	1 476 236	1 422 497
Moderate risk	337 228	405 325
High risk	33 276	37 956
Gross loans and advances not impaired	***1 846 740***	***1 865 778***
Impaired (3)		
Low risk	12 518	9 325
Moderate risk	22 705	17 639
High risk	9 734	12 188
Gross impaired loans and advances	*44 957*	*39 152*
Specific provision for impairment	(10 596)	(9 247)
Impaired loans and advances after provisions	***34 361***	***29 905***
Total		
Low risk	1 488 754	1 431 822
Moderate risk	359 933	422 964
High risk	43 010	50 144
Gross loans and advances	*1 891 697*	*1 904 930*
Fair value adjustment	(15 459)	(16 050)
Deferred loan fee income	(5 377)	(5 586)
Deferred loan fee expense	2 380	2 732
Specific provision for impairment	(10 596)	(9 247)
Collective provision for impairment	(9 512)	(9 970)
Net loans and advances	**1 853 133**	**1 866 809**

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

	2013 $'000	2012 $'000
< 30 days	85 214	66 327
30 – 59 days	14 725	17 068
60 – 89 days	4 956	3 465
90 – 179 days	2 396	1 515
>179 days	1 219	2 674
Total	**108 510**	**91 049**

(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 $8.5 million as at 30 June 2013 ($10.4 million 2011-12).

(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.

32.2.2 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 2013 and 30 June 2012, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2013 $'000	2012 $'000
Derivative financial instruments	(6 267)	(10 587)
Swap income receivable	281	326
Swap expense payable	(603)	(520)
Net payable (note 25)	(322)	(194)

Further information in relation to derivatives is disclosed in notes 32.3.3 and 32.4.2.

32.3 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.

32.3.1 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 HomeStart's internal 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.

32.3.2 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 $2105 million as at 30 June 2013 ($1900 million 2011-12).

32.3.3 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 12 month period is to be limited to 40% (40%, 2011-12) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	2013 %	2012 %
At 30 June	32.65%	36.44%
Average for the period	28.01%	12.10%
Maximum for the period	36.57%	36.44%
Minimum for the period	23.94%	5.87%

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

2013	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	4 773	2 211	-	-	-	6 984	**6 984**
Borrowings	122 517	57 719	450 755	1 300 012	-	1 931 003	**1 799 560**
Other financial liabilities	-	1 329	1 906	-	-	3 235	**3 235**
Total liabilities (contractual maturity dates)	*127 290*	*61 259*	*452 661*	*1 300 012*	-	*1 941 222*	***1 809 779***

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	153 735	9 796	549 449	777 253	476 717	1 966 950	**1 812 364**
Other financial liabilities	-	1 102	1 109	-	-	2 211	**2 211**
Total liabilities (contractual maturity dates)	*158 632*	*13 402*	*550 558*	*777 253*	*476 717*	*1 976 562*	***1 821 976***

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
2013	(429)	(389)	(2 534)	(3 506)	143	(6 715)
2012	(338)	(707)	(3 186)	(6 786)	(1 180)	(12 197)

Further information in relation to derivatives is disclosed in notes 32.2.2 and 32.4.2

(c) Off Balance Sheet

The periods of payment of unrecognised contractual commitments are disclosed in note 34.

32.4 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 exaposure to this risk, all within acceptable parameters while at the same time optimising return.

32.4.1 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 HomeStart's internal 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.

32.4.2 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 2013, HomeStart had floating/fixed swaps with a notional value of $198 million ($224 million, 2011-12) with fixed rates varying between 2.70% and 7.42% (3.12% and 7.83%, 2011-12).

As at 30 June 2013, HomeStart had a floating/floating swap with a notional value of $30 million ($nil million, 2011-12) with a floating rate of 3.07%.

Periods to maturity of the interest rate swap contracts are disclosed at note 32.3.3(b).

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

The major risk measurement process used by HomeStart to measure and control interest rate risk is the Value at Risk (VaR) methodology. Risk measurement and management is further enhanced through the calculation of Present Value per Basis Point (PVBP) as well as the use of stress testing.

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 HomeStart's internal 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 model is necessarily based on reasonable management assumptions. Actual outcomes may therefore differ from expected results calculated using the VaR model.

ALCO has approved a maximum loss limit of $1.1 million. The VaR as at 30 June 2013 was $182 518 ($176 845, 2011-12).

(c) Hedge accounting

Variable rate debt used to fund fixed rate loans to customers is 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 Profit or Loss and Other 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 Profit or Loss and Other Comprehensive Income immediately. In the year ended 30 June 2013, a $4.3 million gain ($7.4 million loss, 2011-12) was recognised in equity during the period.

Further information in relation to derivatives is disclosed in notes 32.2.2 and 32.3.3.

32.4.3 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 HomeStart's internal 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.

2013	**Carrying amount $'000**	**-10%**	**+10%**
Unit Trusts	14 121	(1 412)	1 412
SAFA Cash Management Fund	6 544	(654)	654
Total increase/(decrease) in profit before tax and equity		**(2 066)**	**2 066**

2012	**Carrying amount $'000**	**-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)**

32.4.4 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.

		2013			2012	
	Carrying amount $'000	**-5%**	**+5%**	**Carrying amount $'000**	**-5%**	**+5%**
Breakthrough Loan	70 549	(3 933)	4 300	70 247	(4 021)	4 381
Total increase/(decrease) in profit before tax and equity		**(3 933)**	**4 300**		**(4 021)**	**4 381**

32.4.5 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 33 Fair value and categorisation of financial instruments

33.1 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	2013 Carrying value $'000	2013 Fair value $'000	2012 Carrying value $'000	2012 Fair value $'000
Financial assets					
Cash and cash equivalents	N/A	4 373	4 373	2 781	2 781
Investments	Fair value through profit or loss	108 299	108 299	106 469	106 469
Investments	Held-to-maturity	-	-	12 089	13 071
Investments	Available-for-sale	13 958	13 958	-	-
Loans and advances	Amortised cost	1 853 133	1 906 263	1 866 809	1 917 777
Other financial assets	Financial assets (at cost)	1 136	1 136	1 044	1 044
Total financial assets		**1 980 899**	**2 034 029**	**1 989 192**	**2 041 142**
Financial liabilities					
Borrowings	Financial liabilities (amortised cost)	1 799 560	1 803 175	1 812 364	1 803 447
Other liabilities	Financial liabilities (amortised cost)	3 594	3 594	3 368	3 368
Derivative financial instruments	Hedge accounting (fair value through equity)	6 267	6 267	10 587	10 587
Payables	Financial liabilities (at cost)	6 984	6 984	7 401	7 401
Income tax equivalents payable	Financial liabilities (at cost)	2 659	2 659	2 174	2 174
Provision for dividend	Financial liabilities (at cost)	576	576	37	37
Total financial liabilities		**1 819 640**	**1 823 255**	**1 835 931**	**1 827 014**
Net financial assets		**161 259**	**210 774**	**153 261**	**214 128**

33.2 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.

	2013 %	2012 %
Valuation determined using an automated method (Hometrack Australia)	93.12%	94.90%
Valuation provided by the Valuer General	6.33%	4.55%
Other independent valuation used	0.55%	0.55%

(e) Bonds

The fair value of bonds is calculated using observable market prices.

33.3 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.

2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets measured at fair value				
SAFA Cash Management Fund	-	6 544	-	6 544
Term Deposits	-	17 085	-	17 085
Unit Trusts	-	14 121	-	14 121
Bonds	-	13 958	-	13 958
Breakthrough Loan	-	-	70 549	70 549
Total financial assets measured at fair value	**-**	**51 708**	**70 549**	**122 257**
Financial liabilities measured at fair value				
Derivative financial instruments	-	6 267	-	6 267
Total financial liabilities measured at fair value	**-**	**6 267**	**-**	**6 267**

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**

33.4 Reconciliation of Level 3 fair value measurements

	2013 $'000	2012 $'000
Fair value at 1 July	**70 247**	**67 716**
Breakthrough Loan settlements	8 349	10 551
Breakthrough Loan discharges	(6 582)	(4 417)
Unrealised change in fair value of loans (note 15)	(3 603)	(1 465)
Fair value at 30 June	**70 549**	**70 247**

Note 32.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

NOTE 34 Unrecognised contractual arrangements

34.1 Capital commitments

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

	2013 $'000	2012 $'000
Not later than one year	286	1 601
Later than one year but not later than five years	-	286
Total capital commitments	**286**	**1 887**

HomeStart's capital commitments are for the modification, customisation and implementation of a replacement Front End Loan System.

34.2 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:

	2013 $'000	2012 $'000
Not later than one year	377	-
Later than one year but not later than five years	1 885	2 262
Total capital commitments	**2 262**	**2 262**

HomeStart's software licence commitments are in relation to a replacement Front End Loan System.

34.3 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:

	2013 $'000	2012 $'000
Not later than one year	901	1 084
Later than one year but not later than five years	933	1 853
Total operating lease commitments	**1 834**	**2 937**

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:

	2013 $'000	2012 $'000
Not later than one year	-	203
Later than one year but not later than five years	-	-
Total operating lease receivables	**-**	**203**

34.4 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 2013 and 30 June 2012. 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 the salary inflation rate.

34.5 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 $47.0 million ($42.9 million, 2011-12). These commitments are expected to be paid in the coming year.

NOTE 35 Contingent liabilities

HomeStart has no material contingent liabilities as at 30 June 2013.

NOTE 36 Cash flow reconciliation

36.1 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.

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

	2013 $'000	2012 $'000
Profit for the year	**11 447**	**10 085**
Loss (gain) on sale of fixed assets	(1)	2
Amortisation of discount or premium on purchase of held to maturity financial investments	10	14
Amortisation of discount or premium on purchase of available for sale financial investments	50	-
Depreciation and amortisation expense	558	541
Unrealised change in fair value of loans	1 465	3 603
Unrealised change in market value of investments	(3)	(75)
Change in derivative financial instrument not recognised in equity	(12)	-
Realised change in market value of investments	-	(48)
Reinvestment of managed funds distribution	(815)	(1 261)
Reinvestment of interest on fair valued investments	-	(118)
Bad debts written-off	3 204	2 606
Fees applied directly to loan accounts	(5 473)	(5 277)
Changes in assets and liabilities:		
(Decrease) increase in provision for impairment	891	1 087
(Decrease) increase in deferred loan fee income	(209)	(312)
(Decrease) increase in deferred loan fee expense	352	301
(Decrease) increase in fair value adjustment	(591)	(131)
Increase (decrease) in payables	(432)	(792)
Increase in provision for employee benefits	194	466
Increase (decrease) in other liabilities	218	184
(Decrease) increase in income tax equivalents payable	484	(832)
(Increase) decrease in financial and other assets	(104)	(402)
Net cash provided by operating activities	**11 233**	**9 641**

NOTE 37 Events after balance date

The Department of Treasury and Finance has advised that it will increase the guarantee fee it charges HomeStart from 1.5% to 1.6% of outstanding borrowings from 1 July 2013.

No other 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.

INDEPENDENT AUDITOR'S REPORT

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To the Chair
HomeStart Finance

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* 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 2013. The financial report comprises:

- a Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013
- a Statement of Financial Position as at 30 June 2013
- a Statement of Changes in Equity for the year ended 30 June 2013
- a Statement of Cash Flows for the year ended 30 June 2013
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and General Manager Treasury, Finance and Risk.

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 the 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.

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 2013, 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
25 September 2013

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Auditors
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.

For information on the Annual Report:
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