Government of South Australia

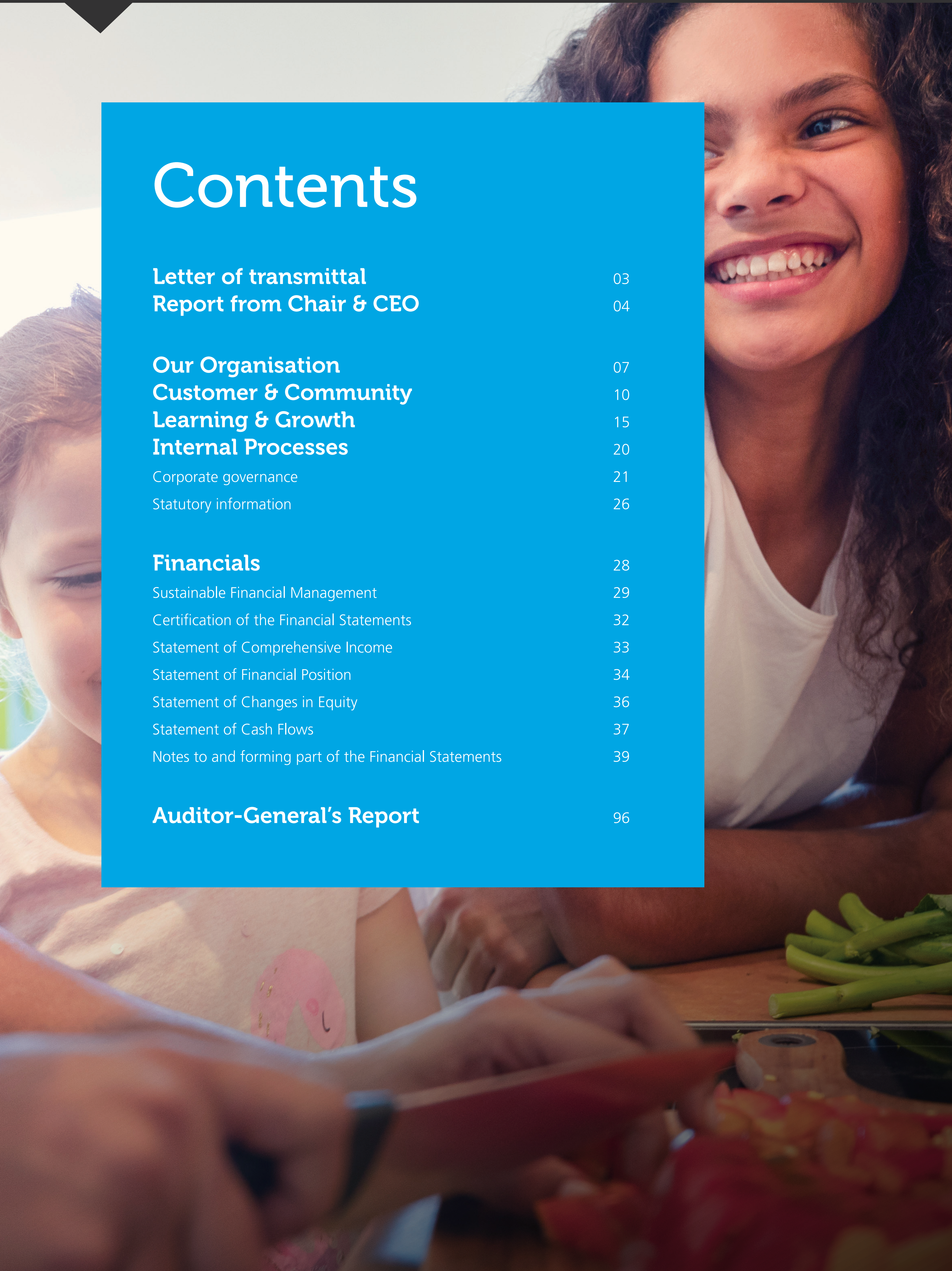
HomeStart FINANCE

# Annual Report

## 2018-19

# Contents





27 September 2019

The Hon Stephan Knoll MP
Minister for Transport, Infrastructure and Local Government
Minister for Planning
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister,

**HomeStart Finance 2018-19 Annual Report**

It gives me great pleasure to present a summary of HomeStart's achievements over the 2018-19 financial year.

HomeStart continued to make home ownership a reality for more South Australians in more ways, assisting 1 637 households to purchase their own home.

I welcome any requests for further information should you have any questions about this report.

Yours sincerely,

Jim Kouts
Chair
HomeStart Finance

**Performance**

Courage isn't a term that comes to mind when you think about the housing finance sector, yet in searching for a word to describe HomeStart's 2018-19 financial year it is one which immediately comes to mind.

It has taken courage - from policymakers, our employees and our customers - to continue our core mission to make home ownership a reality for more people in more ways in the most unusual of economic times.

Over the past year, Australia has entered uncharted territory with interest rates running close to zero and a softening economy. Yet HomeStart has continued its strong support of South Australians, helping 1 637 people into home ownership during 2018-19. Our loan book now totals more than $2.2 billion and we have achieved a record profit before tax of $23.3 million up from $18.9 million in 2017-18.

As we head into our 30th year we can also announce that our total contribution to the State Government since 1989 has been $665 million. This was off the back of an initial contribution from the State of $20 million.

In the past financial year alone, our total payments (through fees, dividends and tax equivalent charges) amounted to $52 million - a return on capital invested of 32.5%. We also achieved a return on equity of 14.5% against a target of 9%.

Our courage has been evident in our continued commitment to product innovation in challenging economic times. In June, we announced the HomeStart Starter Loan in conjunction with the State Government. It aims to help 200 low income earners into home ownership through a $2 million Affordable Housing Fund to be administered by HomeStart over the next two years. We have already attracted strong interest from potential buyers, builders and brokers and we look forward to reporting on the results of this loan after its September 2019 launch.

Our broker channel is another example of where we have been courageous and focused on growth through key new strategic partnerships.

In March 2019, Australia's largest broker group, Aussie Home Loans, expanded its South Australian lender panel to include HomeStart. Aussie's 75 South Australian-based brokers can now say 'yes' to customers they may have previously said 'no' to which helps us support more South Australians into home ownership. As a result, our broker panel has now grown to over 700 accredited brokers in South Australia and is an integral part of our distribution network.

Over the past 12 months, the South Australian construction industry has experienced a severe downturn of more than 20%, however HomeStart's construction lending has recorded strong growth. In fact, during 2018-19, we approved 485 construction loans, which is approximately 15% higher than the previous financial year and represents $166 million in lending. According to a South Australian Centre of Economic Studies Report, our lending in this area supports 800 jobs in South Australia. This highlights just how important HomeStart is in supporting the construction industry and how we operate as a key economic and social policy tool to help South Australia's economy grow.

**Market conditions**

South Australia continues to rate highly in housing affordability rankings and the current low interest rate environment makes repaying debt more realistic for many. Continued support from both State and Federal governments in terms of infrastructure development as well as the prospect of a surge in jobs in the Defence industry combined with renewed private sector investment are reasons for cautious optimism.

Against that backdrop our customers show courage in taking the leap of faith into what can be one of the most daunting decisions they will ever make – to buy their own home. We are proud to be able to help them boost their buying power, meet up-front costs and provide them with the confidence to know that home ownership is not merely a dream.

We're particularly proud to have supported almost 5 000 graduates through our Graduate Loan over the past 30 years. It is also worth noting that 19.4% of new lending approved in 2018-19 went to those living outside metropolitan Adelaide in regional South Australia.

We have also continued our important role as a stepping stone lender which helps customers get their start before transitioning to a mainstream lender. In 2018-19, 504 of our customers moved to a mainstream lender. Importantly, our 90 day arrears level was 0.84%, well within the range recorded by the major banks.

Our data shows that almost 90% of new HomeStart customers were unable to secure a loan from a major lender at the time of application, which is another important reminder of how HomeStart expands the overall home buyers' market rather than directly competing with other lenders.

### Governance

We are continuing to act on the outcomes and recommendations from the Royal Commission and comply with APRA and ASIC guidelines to ensure best practice is observed across our operations.

We have always taken a hands-on approach to lending. All our lending decisions are made by real people and all applicants' living expenses are verified against bank statements. We take our role as a responsible lender seriously and are committed to helping our customers find the right loan for them.

It should be noted that our dividend policy has been adjusted to 100% in this financial year. This means over time we could see the business go below our capital adequacy key performance indicator of 12%. In making the decision to move to 100% the State Government has committed to future capital injections if required to maintain the 12% ratio.

I would like to take this opportunity to thank our Board and our employees for their efforts over the past year as we continue to review and refine our practices in line with our 2018-21 Strategic Plan.

Most importantly, I want to thank our customers, who are at the heart of everything we do.

**Jim Kouts**
Chair

### Our customers

I'd like to thank our dedicated employees who work tirelessly to achieve home ownership in more ways for more South Australians. Their initiative and willingness to not just simply 'adapt' to change, but embrace it and operate with compassion and care, is something that makes me feel immensely proud. It is due to their efforts that HomeStart continues to be one of South Australia's great success stories and an organisation that all South Australians should cherish.

Over the past 30 years, we have helped more than 75 000 South Australians achieve the great Australian dream of home ownership. While much has changed since we started in 1989, our focus on our customers and our commitment to being innovative and different from the mainstream has never wavered. We have been privileged to hear from families and individuals who never thought they would own their own home and as we celebrate our 30th birthday late in this calendar year, we remain committed to continuing to make these dreams come true.

### Lending

This year we assisted 1 637 families and households achieve their dream of home ownership. Whilst this fell marginally short of our expectations our market share increased slightly, highlighting that the overall housing market activity across South Australia shrank by comparison to the 2017-18 financial year.

We continued to build on our strong relationship with builders and developers supporting the construction industry at a time when the industry experienced a significant decline in building activity. We settled 485 construction loans, well up on our previous year's outcome of 427 homes. The trajectory in our growth of construction lending over the past five years has been very pleasing as it ensures we are assisting create and retain jobs in the industry.

One of the ways we look forward to increasing housing activity in the coming year is through our new Starter Loan which was announced in the 2019 State Government budget in June. This is an important initiative which will give many potential and creditworthy home buyers the 'hand up' they need to achieve their dream of home ownership.

Aussie Home Loans joined our panel of brokers in 2018-19 and we look forward to strengthening this important relationship over the coming years. Mortgage brokers continue to be an integral part of our distribution strategy across South Australia and sourced over 63% of our loan settlements this financial year.

**Our people and technology**

During the past year we continued to invest heavily in technology to improve the customer experience and importantly make our IT infrastructure and systems more resilient. There was a strong focus on protection of our data and the ever-increasing challenge of cybersecurity which requires constant investment.

We completed 30 IT related projects over the year, a significant achievement. Two major projects were our Electronic Document Records Management System (EDRMS) which will enable HomeStart to move away from a reliance on paper-based records to electronic storage of records, including loan files; and secondly, a very complex project involving the consolidation of multiple loan calculators across different platforms into one single calculator.

Over the next 12 months, we will upgrade our website to provide greater functionality for customers, our brokers and web visitors. We will also commence investigations into the replacement of our lending systems.

Just as we invest in technology, investing in our employees is a key plank in our Strategic Plan. In September 2018, HomeStart was named the Employer of Choice (in the Public Sector and Not for Profit category) at the Australian HR Awards. This was followed by further accolades, winning the prestigious Martin Seligman Health and Wellbeing Award at the 2018 AHRI HR Awards. This award recognises outstanding strategies and initiatives promoting the health and wellbeing of employees in the workplace.

In March 2019, HomeStart became Australia's first accredited Healthy Minds Workplace. This accreditation recognises our commitment to providing evidence-based psychology skills training to employees to prevent and reduce the risk of mental ill-health. We continued to invest in our employee's personal self-development through our long running BluePrint program overseen by Dr Josie McLean as well as enhancing technical skills and knowledge through attendance at conferences, seminars and other relevant forums.

**Our community**

HomeStart has an established presence in Adelaide through our southern, northern and city offices, and in 2018-19 we strengthened our regional presence. We held home buyer seminars in Berri, Port Lincoln and Mt Gambier and used our partnership with Netball South Australia to further reach these communities.

We continued our support of TAFE SA, and in turn a large proportion of the State's graduates, through our sponsorship of key events such as the TAFE SA Graduate Fashion Parade and the TAFE SA Building and Construction Awards.

Other sponsorships during this period focussed on family events and included Adelaide Zoo's Boo at the Zoo and the City of Adelaide 2018 New Year's Eve firework's both of which helped improve awareness of HomeStart.

During 2018-19, 591 migrants from more than 90 countries bought a home through HomeStart and we continued to back South Australia's multicultural communities including attending the Bhutanese Australian Association of South Australia's 11th Annual Settlement Day in May and holding a home buyer seminar for the Bangladeshi community in March. Overall, eight home buyer sessions were held throughout the State, with city-based seminars conducted in the Adelaide CBD, Noarlunga, Elizabeth and Marion.

Our marketing and advertising campaigns including social media continued to increase brand awareness of HomeStart. Independent research conducted by MINT Research in November 2018 ranked HomeStart in fourth position in terms of unprompted brand consideration in South Australia behind Commonwealth Bank, ANZ and NAB, a notable achievement.

**Looking forward**

Our success in 2018-19 would not have been possible without the support of our Board whose inclusive leadership and personal commitment and contributions to HomeStart are valued.

There is much to look forward to in the coming year as we continue our resolve to deliver on our 2018-21 Strategic Plan and strive to make home ownership a reality for more people in more ways.

**John Oliver**
Chief Executive Officer

# Our Organisation

# Our reason for **being**

HomeStart's reason for being is to make home ownership a reality for more people in more ways. After 29 years of operation, this purpose remains clear and represents an ongoing source of value for the South Australian Government and state.

## Our **organisation**

As a statutory corporation operating under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*, 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 community housing and aged care residential accommodation or facilities.

## SA Government **priorities**

HomeStart reports to the Minister for Transport, Infrastructure and Local Government and Minister for Planning, the Hon Stephan Knoll MP.

HomeStart seeks to actively contribute towards broader State Government priorities, making South Australia an affordable place to live through the provision of innovative and targeted housing finance.

Access to affordable and sustainable home finance is an important component in ensuring the dream of owning a home remains within reach for all South Australians.

The associated benefits of home ownership, such as increased wellbeing and stability, also assist to create South Australia as a vibrant state with safe and healthy neighbourhoods.

## Our **strategy 2018-21**

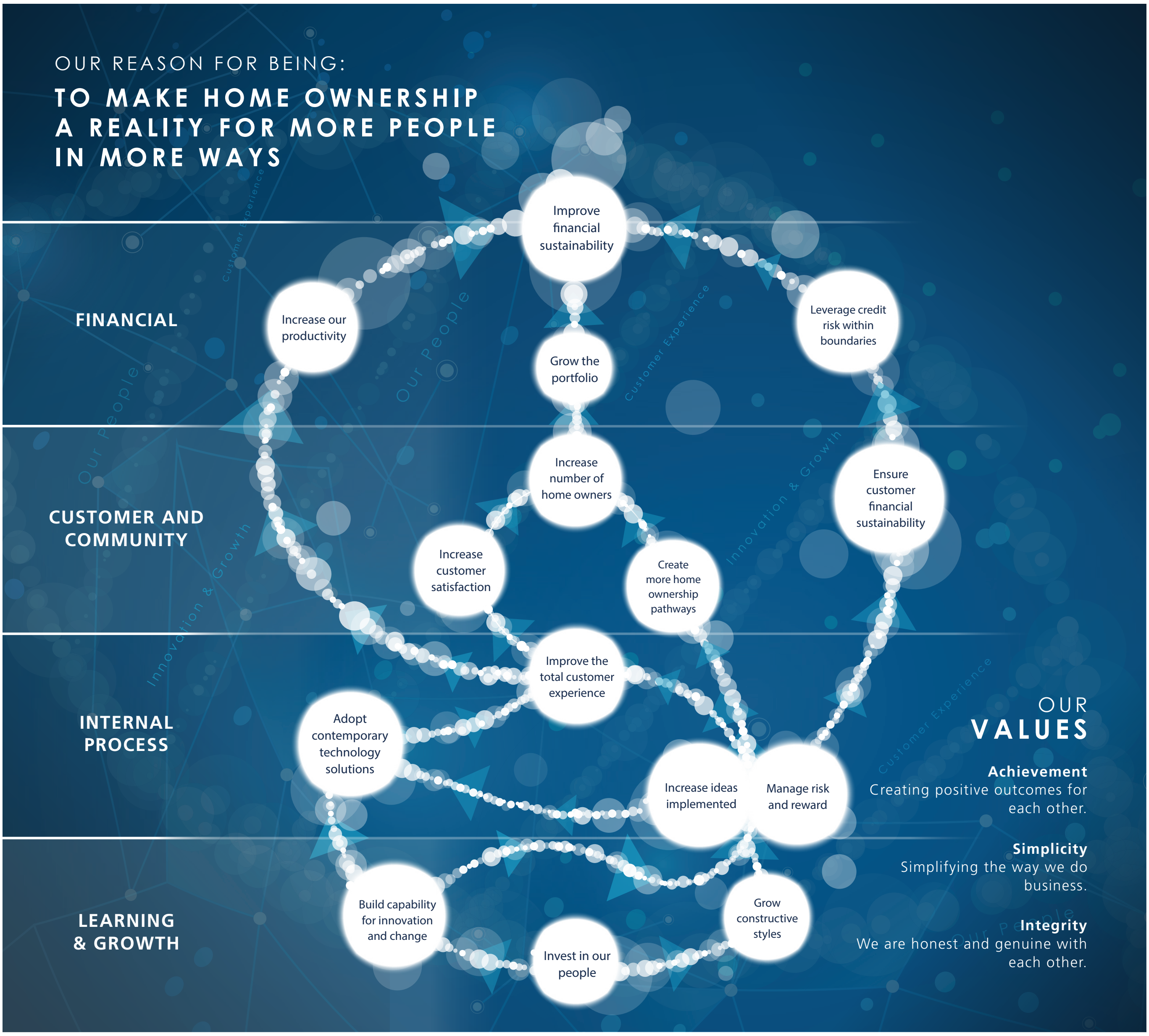
This year, HomeStart commenced a new three-year Strategic Plan period with a refreshed and updated strategy.

HomeStart's Strategic Plan is summarised by a strategy map (over page), which shows the logical progression from developing our people and improving our processes, to creating home ownership outcomes for customers and the community, and achieving financial sustainability over the long term.

The updated strategy map emphasises the need for innovation and growth; an enhanced focus on our customers and their experience; and investing in and lifting our technological capability to ensure we remain agile and resilient.

## Our strategy 2018-2021

This strategy map highlights how we achieve our goals:



# Customer & Community

# Our **customers**

Over 29 years we have helped more than 75 000 South Australian households into their own home.

These customers come from a range of backgrounds and circumstances including:

- first home buyers starting out
- graduates looking to buy their own home
- migrants from more than 90 countries setting permanent roots in South Australia
- single parents starting over
- moderate income households in need of a borrowing boost
- seniors looking to fund lifestyle changes with a reverse mortgage
- singles moving out of their parents' home
- public housing tenants moving out of rental accommodation.

Of our 1 637 customers in 2018-19:

- 1 083 were first home buyers
- 58% were leaving private rental
- 33% bought homes in the northern fringes of metropolitan Adelaide, while 15% bought homes in the country
- 485 built new homes, representing 29.6% of new lending
- 94.9% of the portfolio were in advance of their repayments, an increase from last year
- the average loan size was $302 896, an increase of 5.4% on last financial year
- the average purchase price was $341 186
- almost 87% would not have been able to secure finance from a mainstream lender at the time of their application.

# Lending

The South Australian housing market remained relatively stable in 2018-19. The Real Estate Institute of Australia (REIA) reports that the median detached house price in Adelaide rose 2.9% in moving annual average terms to $475 700 in the year to March 2019. Adelaide currently has the lowest median house price of any capital city in Australia.

Total dwelling approvals in South Australia in June 2019 fell 0.8% to be 22% lower than a year earlier, however HomeStart's unique offering reported a 12.5% increase in the number of construction loans regardless of the market trend.

Overall, HomeStart settled 1 637 loans in 2018-19, while this was a decrease of 8.0% from the previous year, HomeStart strengthened its market position as a unique, niche lender in a soft market on the back of its innovative product offering.

# Our **loans**

HomeStart's Standard Home Loan offers flexible repayment and interest rate options to assist customers with the purchase of an existing home or to build, refinance or purchase land for a later build. In addition to the standard loan, HomeStart has a range of innovative home loans that enable customers to borrow more or get started sooner with less upfront costs.

## Graduate Loan

Since 2002, the Graduate Loan has helped 4 900 graduates buy a home with a deposit from 3%, with loans totalling more than $1.4 billion. With the Graduate Loan available to graduates with Certificate III and above qualifications, HomeStart has seen significant growth in this product with a total of 762 Graduate Loans settled in 2018-19, an increase of 2.5% in value compared to the previous financial year. This is a pleasing result, as HomeStart is providing more graduates with a clear pathway to home ownership and helping to retain skilled and qualified South Australians in the state.

## Loans for construction

HomeStart's construction option remains unique in that home buyers can choose not to make loan repayments for the first nine months or until construction is complete, whichever comes first. For the past three years, HomeStart has worked to establish relationships with almost all leading builders and developers across the state, thereby enabling first home buyers to access house and land packages for very low upfront costs.

This area of HomeStart's lending activities has grown strongly, rising from 254 in 2015-16 to 485 in 2018-19, representing more than $166 million of lending this year, and 94% of these customers were first home buyers. Economic modelling suggests that HomeStart's construction lending activities support more than 800 jobs per year.

## Shared Equity

HomeStart is regarded as one of Australia's most experienced shared equity operators having offered the Breakthrough Loan since 2007. In 2017-18, the Breakthrough Loan was withdrawn and the new Shared Equity Option launched in April 2018 as a replacement. The Shared Equity Option provides low to moderate income customers with a significant buying boost of up to 33% without increasing their ongoing commitments. In exchange, the customer agrees to share a pro-rata portion of capital gains or losses on the property when it is eventually sold. A total of 51 Shared Equity Option loans valuing $3.5 million were settled in 2018-19.

During the year, HomeStart's advice and experience in the field of shared equity was sought by a variety of organisations including Cagamas Berhad (Malaysia) and the International Finance Corporation (part of the World Bank Group).

## Advantage Loan

The Advantage Loan is an additional loan of up to $45 000 for people earning under $60 000 per annum after tax. It helps home buyers increase their borrowing capacity without a corresponding increase in repayments, as repayments are not required on the Advantage Loan until the primary loan is repaid. The Advantage Loan also has a lower interest rate, equivalent to CPI.

In 2018-19, the number of Advantage Loan settlements decreased by 18.2% compared to the previous financial year, yet still totalling $9.3 million in value.

The Advantage Loan has helped 13 437 households achieve their home ownership aspirations. A total of 360 Advantage Loans were settled this financial year.

## Wyatt Loan

In conjunction with the Wyatt Trust, HomeStart offers eligible low income households a loan of up to $10 000 to assist with meeting the upfront costs associated with a home loan. The Wyatt Loan is taken out with a HomeStart loan, and offers an interest and repayment-free period of five years. The Wyatt Loan represents a highly effective means of assisting customers with the most pressing barrier to home ownership.

The Wyatt Trust is a not-for-profit organisation dedicated to reducing financial disadvantage and improving the quality of life for South Australians. Since 2007, 373 customers have accessed the Wyatt Loan. In 2018-19, a total of 31 Wyatt Loans were settled to the value of $295 259.

## Low Deposit Loan

The Low Deposit Loan offers a 3% deposit option for home buyers to purchase an existing home in metropolitan South Australia. A total of 17 Low Deposit Loans were settled this financial year.

## EquityStart Loan

The EquityStart Loan was a joint initiative with the State Government Department for Communities and Social Inclusion and was a secondary loan of up to $50 000 for current social or public housing tenants, combined with a HomeStart loan. A total of 33 EquityStart Loans were settled this financial year. The State Government commitment of 1 500 loans was achieved during the year and the program closed in May 2019.

## Starter Loan

Announced in June 2019, the Starter Loan is an initiative from the 2019 South Australian State Budget and supported by the Affordable Housing Fund. It is a secondary loan taken out with a primary HomeStart loan to help cover the upfront costs of buying or building a home and will be in market from September 2019.

## Seniors Equity Loan

The Seniors Equity Loan is a reverse mortgage product for over 60s to unlock the equity in their home. This helps seniors fund lifestyle expenses, home renovations or to supplement their income. A total of 111 Seniors Equity Loans were settled this financial year at a value of $9.4 million.

# Distribution

HomeStart consists of offices located in Adelaide, Morphett Vale and Salisbury. A total of 538 loans were settled for $156 million in the 2018-19 financial year via the HomeStart offices, including 171 loans valued at $60 million via the city office and 367 loans valued at $96 million via the south and north offices combined.

The broker channel has continued to grow with the focus on improving our efficiency and service. During 2018-19, brokers settled 1 099 new loans worth $333 million, representing 63.3% of new lending. HomeStart now has 744 accredited brokers that can offer a range of loans, with 112 new brokers accredited this financial year.

# Customer **service**

Customers connect with HomeStart in a variety of ways including face-to-face, over the phone and online through social media channels and the corporate website. Translator services are provided to assist customers from culturally and linguistically diverse backgrounds.

Since 2010, HomeStart has used the Net Promoter Score (NPS) to measure customer satisfaction and loyalty – that is, the likelihood a customer would recommend HomeStart to friends and family. The NPS allows HomeStart to track and act on customer sentiment and ensure we are providing a good customer experience.

In 2018-19, HomeStart continued to rate extremely well on NPS with an average score of 55%. This dramatically exceeds both internal targets and the financial services industry average.

The corporate website attracted 190 977 visitors during 2018-19, of which 76.7% were first time users. The majority of users came via their mobile device (54%) followed by desktop (38%) and tablet (8%).

HomeStart's Facebook community of potential and current customers increased from 12 382 followers to 13 097, which is a 5.7% increase. Further, 7 134 users went to the HomeStart corporate website from Facebook.

Both the Construction Loan and the Graduate Loan were a focus to continue to raise awareness and consideration amongst the first home buyer segment.

In the market, HomeStart continued with the 'Future You' advertising campaign and also added two new commercials with one targeting single income families and the second targeting parents of first home buyers. This campaign was developed as an evolution of the 'Sooner' brand proposition. It highlights how getting into your own home sooner is possible with HomeStart and continues to support the overarching strategy of 'making home ownership a reality for more people in more ways'.

By investing in brand building opportunities, via television, radio, bus backs, AdShel, digital advertising and social media engagement, along with leveraging partnerships and events, HomeStart successfully raised prompted brand awareness levels by 20% (from 49% pre-launch to 69% post-launch).

# **Community** lending

In August 2018, Access 2 Place completed 10 new purpose-built homes in Kidman Park. This project was funded by HomeStart and the homes were built to help people living with disabilities in South Australia.

# **Community contribution** and social responsibility

HomeStart supports the community through sponsorships, seminars, corporate volunteering and donations. Relationships are developed with a wide variety of organisations, not-for-profits and events that share similar values and help to make positive social change for the state of South Australia.

HomeStart's aim is to have a positive and sustainable impact on customers, people, community and environment. The belief is this leads to a sustainable business that creates value for the shareholder, the Government of South Australia, and in turn value for future generations of home buyers.

# **Seminars**

HomeStart hosts free home buyer seminars to help educate the public on the home buying process. Eight seminars were held in 2018-19 attracting 467 attendees.

Seminars were also delivered specifically to migrant groups and seniors' organisations such as The Catalyst Foundation, Mount Gambier Migrant Resource Centre, Syrian Community, Lutheran Community Care and Anglicare Counsellors, with a total of 101 attendees across these seminars including the Bangladeshi Home Buyer Seminar.

# Community **volunteering**

HomeStart offers all employees one day of community volunteer leave per year (I Make A Difference Day) which they can use to help provide valuable skills and hands-on assistance to approved organisations.

# **Partnerships**

In 2018-19, HomeStart partnered with the following organisations and events:

- Bangladeshi Community New Year and 15th Anniversary of SABCA
- Bhutanese Australian Association
- Boo at the Zoo
- DreamBIG Festival
- Netball SA
- New Year's Eve Fireworks
- Something on Saturday Festivals
- South Australian Bangladeshi Community Association Inc
- TAFE SA Building and Construction Awards Night
- TAFE SA Fashion Graduate Parade.

# **Donations**

In 2018-19, HomeStart helped the following organisations by donating to their causes:

- Alzheimer's Australia
- Buy A Bale - Rural Aid
- Children's Medical Research Institute Lions Club
- Diabetic Association
- Football Federation South Australia
- Leukaemia Foundation
- Movember
- Neil Sachse Centre - SAHMRI.

# Learning & Growth

# Our people

**Our people are central to HomeStart's success.**

The 2018-2021 Strategic Plan recognises learning and growth as a key perspective. In order to meet this, we continued to invest in our people to ensure they have the right knowledge, skills and behaviours to get the job done in an environment where the pace of change is increasing and our customer expectations have grown.

We also remained committed to our Strategic Plan objectives ensuring that we continued to "build a culture where our people are personally fulfilled, work effectively together and do great work". In achieving this, we used a culture survey tool and undertook an employee engagement survey. Both tools provided us with the opportunity to listen to employees' opinions, overall satisfaction and engagement with their work, and to assess the conditions of engagement so that we could diagnose areas for improvement.

The November 2018 Human Synergistics Culture Survey (OCI/OEI) results told us that overall, we are a constructive culture. We have continued to build on this through the work that our Culture Council do with our teams.

The PULSE engagement survey undertaken in May 2019 measured our current employee engagement score. This survey told us that our engagement score was 77%, with an 83% participation rate. This engagement score exceeded the global average score of 74%.

HomeStart received several awards and accreditation during 2018/19, which included the:

- HR Awards – Employer of Choice (Public Sector & NFP). This award recognised HomeStart as the best public sector or not-for-profit organisation to work for in Australia. This was judged on leadership, engagement, communication and employee benefits;
- Australian Human Resource Institute (AHRI) Martin Seligman Health and Wellbeing Award. This award recognised the outstanding strategies and initiatives promoting the health and wellbeing of employees in the workplace; and
- Healthy Minds Accreditation, from Healthy Minds which recognised our commitment to the wellbeing of the people who work at HomeStart.

# Learning and growth statistics

## Documented review of individual performance management

| Employees with | % of workforce |
|---|---|
| A review within the past 12 months | 96.4 |
| A review older than 12 months | 0.0 |
| No review* | 3.6 |

*new employees at HomeStart within the last 2 months

## Average days leave per full-time equivalent employee

| Leave type | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|
| Sick leave | 5.8 | 5.4 | 5.6 | 5.8 |
| Family carer's leave | 1.2 | 1.3 | 1.6 | 1.8 |
| Miscellaneous special leave | 0.5 | 0.0 | 0.0 | 0.0 |

## Number of employees by age bracket and gender

| Age bracket | Male | Female | Total** | % of total workforce | % Workforce benchmark* |
|---|---|---|---|---|---|
| 15-19 | 0 | 0 | 0 | 0 | 5.5 |
| 20-24 | 0 | 1 | 1 | 0.9 | 9.7 |
| 25-29 | 3 | 2 | 5 | 4.6 | 11.2 |
| 30-34 | 4 | 4 | 8 | 7.3 | 10.7 |
| 35-39 | 4 | 6 | 10 | 9.1 | 9.6 |
| 40-44 | 7 | 11 | 18 | 16.4 | 11.4 |
| 45-49 | 10 | 9 | 19 | 17.3 | 11.1 |
| 50-54 | 9 | 7 | 16 | 14.5 | 11.4 |
| 55-59 | 9 | 9 | 18 | 16.3 | 9.1 |
| 60-64 | 7 | 6 | 13 | 11.8 | 6.7 |
| 65+ | 1 | 1 | 2 | 1.8 | 3.6 |
| **TOTAL** | **54** | **56** | **110** | **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 November 2013

** Excluding casuals and employees on extended leave without pay

## Employee training and development expenditure

| Training and development | Total cost $'000 | % of total salary expenditure |
|---|---|---|
| Total training and development expenditure | 299 | 2.5 |

## Total number of employees with disabilities

| Male | Female | Total | % of workforce |
|---|---|---|---|
| 1 | 1 | 2 | 1.7 |

## Executives by gender

| Male | % | Female | % |
|---|---|---|---|
| 3 | 50.0 | 3 | 50.0 |
| | | | 100.0 |

Further human resources information is available from the Office for the Public Sector website publicsector.sa.gov.au.

# Organisational chart

- **Minister for Transport, Infrastructure and Local Government Minister for Planning**
  - **HomeStart Finance**
    - **Chief Executive**
      - Chief Financial Officer
        - Asset and Liability Management
        - Finance
        - Business Analysis
        - Information Services
      - Head of Strategic Development
        - Strategy
        - Marketing and Communications
        - Product Development
        - Business Intelligence
        - Facilities
        - Continuous Improvement
      - Head of Retail
        - Sales
        - Lending Operations
        - Customer Relationships
        - Retail Business Support
        - Customer Assist
      - Chief Risk Officer
        - Legal and Regulatory Compliance
        - Credit Policy
        - Risk Management and Analysis
        - Credit Review
      - Executive Services
        - People and Performance
        - Executive Assistant to the CEO

As at 30 June 2019.

# Internal Processes

# Corporate **governance**

HomeStart Finance is a statutory corporation operating under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007.*

Under the State Government's administrative arrangements, HomeStart falls under the ministerial responsibility of the Minister for Transport, Infrastructure and Local Government and Minister for Planning, the Hon Stephan Knoll MP.

HomeStart's approach to corporate governance is guided by legislation, State Government guidelines issued by the Department of Premier and Cabinet, Treasurer's Instructions issued by 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 2018-19 are identified on pages 24 and 25.

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 Transport, Infrastructure and Local Government 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.

A Department of Treasury and Finance appointed observer attends each Board meeting.

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

## Audit Committee

This committee is chaired by Sue Edwards and includes two other Board member representatives. Management personnel and representatives of the Auditor-General and internal auditors also attend meetings. 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
- approving changes to the risk management framework
- operates in a commercial manner and manages risk prudently.

## Asset and Liability Committee (ALCO)

This committee is chaired by Chris Ward and includes two other Board member representatives. The Chief Executive Officer and Chief Financial Officer are also members of this committee. Other management personnel, and representatives from the South Australian Government Financing Authority (SAFA) also attend the meeting. The committee ensures HomeStart:

- maintains sound, prudent financial asset, liability and capital management practices for the long-term financial viability of HomeStart
- monitors all credit and market risks
- approves changes to variable interest rate settings.

## Board Credit Sub-Committee

This sub-committee is chaired by Chris Ward and includes two other Board member representatives. The sub-committee meets on an ad-hoc basis to review community housing lending transactions on behalf of the Board.

## 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 objectives, 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

Member 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 8 to the financial statements.

## Board member benefits

During or since the 2018-19 financial year, no Board member has received or become entitled to receive a personal benefit (other than a remuneration benefit included at Note 8 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 the appointment of the Chief Executive Officer (CEO) rests with the Board of Management, and responsibility for executive appointments rests with the CEO. Details of executive remuneration are set out in Note 8 to the financial statements.

## Risk management

HomeStart has an enterprise-wide approach to managing risks to ensure they are identified and managed at all levels of our operations.

While oversight of risk management remains the primary responsibility of the Board, each 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 everyday work and is supported by:

- a Risk Management Framework that outlines how risk is managed at HomeStart
- a Risk Management Policy that provides the roles and responsibilities for each of the three lines of defence; employees, legal and risk assurance, and Board
- a Risk Appetite Statement summarising HomeStart's general approach to the assumption of risk, and how this translates into capital at risk in different areas of the business
- a Risk Management Plan outlining continuous improvements and timeframes for implementation
- identification, assessment (using AS/NZS ISO 31000:2018) and recording of risks and controls through a risk management system
- continuous monitoring and reassessment of risks and internal controls, prompted by our risk management system's interactive email capability and through regular discussion at executive and team level
- organisation-wide feedback on existing and emerging risks
- comprehensive reporting to Executive, Audit Committee and Board.

## 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.

Risk and control self-assessments are conducted for each division against the strategy to ensure current risks are captured and monitored or mitigated.

## 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. Analysis is underpinned by credit risk systems that have been developed using a combination of theory and experience, drawn from the behaviour of our customer base.

A Credit Policy Committee is in place to ensure that changes to our policies result in sound lending decisions and arrears management practices.

Regular and comprehensive reporting and monitoring occurs to ALCO, Audit Committee and Board.

## Market risk

A comprehensive set of policies govern HomeStart's funding and interest rate risk management activities. These policies are monitored by ALCO at its monthly meetings and daily by the Chief Financial Officer. HomeStart's funding is entirely sourced from the South Australian Government via the South Australian Government Financing Authority (SAFA), so the exposure to market risk is limited to SAFA's exposure.

## Operational risk

Operational risks are those inherent in the day-to-day functions of HomeStart. The 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 system against the relevant risk and are investigated and mitigated where possible, within set timeframes dependent on the risk rating. Overdue responses are reported to the Executive and Audit Committee. This reduces recurrences and encourages continuous improvement and accountability.

## Information Security Risk Management

HomeStart has an Information Security Management System to safeguard against information security risk as outlined in the standard ISO/IEC 27001:2013 Information Security Management.

The program includes the additional capture of information security risks and controls, along with a register of actions and the introduction of a suite of policies specific to information security.

## Compliance, internal control and assurance

The 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.

An Anti-Money Laundering and Counter Terrorism Financing Program is in place with suspicious matters reported to the Australian Transaction Reports and Analysis Centre (AUSTRAC).

While internal fraud is a risk that HomeStart is 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 delegations
- an internal audit program
- segregation of duties
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation
- a Fraud Governance Control Plan
- Whistleblower process
- a '10 days leave in a row' policy for all employees
- reconciliations
- 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 Auditors Report is provided to the Board. The report for this financial year can be found on page 97.

Deloitte conducted the operational internal audit function for 2018-19 which was based on a three-year rolling audit plan.

The audit of new lending and arrears for internal lending and loan managers is conducted in-house, with results continuing to be reported to the Audit Committee.

# Board members

## Jim Kouts – Chair

Mr Kouts has significant commercial, strategic and governance experience across a range of national and state-based private and government sector organisations.

He was recently the Australian Head of Corporate Affairs for the global energy and services group, ENGIE. He is currently a Director of his corporate advisory business, Executive Advisory, a Non-Executive Director of the Beston Global Food Company, a Non-Executive Director of the Adelaide Convention Bureau, a Non-Executive Director of the Adelaide Venue Management Corporation 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.

Mr Kouts was appointed to the Board in November 2005 and appointed Chair in December 2013.

## Chris Ward

Mr Ward is a professional director with experience in multiple business disciplines following a career in Banking and Finance. As well as being an Advisory Board member to a number of private companies he also provides pro bono mentoring to a small number of businesses. Previous Directorships include South Australian Film Corporation, Australian Dance Theatre and Lisa Fahey Foundation.

Mr Ward was appointed to the Board in June 2012 and appointed Deputy Chair in December 2013.

## Sue Edwards

Ms Edwards is a former partner at Deloitte and is currently Chief Financial Officer for the Mitolo Group. She specialises in providing business advice, including strategy, finance and taxation and brings financial services experience through past roles in treasury management, and is also a Board member of Museum SA.

Ms Edwards was appointed to the Board in December 2010.

## Darryl Royans

Mr Royans has extensive finance and management experience gained through a 40-year career with the Commonwealth Bank of Australia. Prior to retirement from the bank, he held the position of State Manager for SA & NT Commercial Banking, Risk. Mr Royans consults to a private financier, is a Justice of the Peace and is the former Chair of the Alwyndor Aged Care Board.

Mr Royans was appointed to the Board in December 2013.

## Carmel Zollo

Ms Zollo served the South Australian community as a Member of the Legislative Council from 1997, and as a Minister between 2005 and 2009. She retired at the 2014 State Election. Ms Zollo was Minister across several portfolios including Emergency Services and Correctional Services. She served in many Parliamentary roles prior to becoming a Minister. She also chaired and was a member of many Standing and Select Committees throughout her career, as well as having a history with community organisations.

Ms Zollo was appointed to the Board in December 2016.

## Shanti Berggren

Ms Berggren is the Deputy General Counsel at Optus Business with 28 years' experience practising law in different areas, including litigation, IP, ICT and telecommunications. Ms Berggren worked in Los Angeles, Singapore and Sydney before returning to Adelaide in 2005. Her in-house roles have had great emphasis on leadership, and balancing risk management with driving sound commercial outcomes. Ms Berggren is the Chair of the Board of Directors of Wilderness School and the Chair of the University of Adelaide Law School Advisory Board.

Ms Berggren was appointed to the Board in March 2017.

## Cathie King

Ms King is a professional director with broad strategic and governance experience across national and South Australian-based private sector and government organisations. She is a Non-Executive Director of EML and Chair of the Board Risk and Compliance Committee, Non-Executive Director of Don Dunstan Foundation and Chair of the Committee of Management, a Board Member of Common Ground SA, a Director of Trinity Advisory Ltd and a Non-Executive Director of the Adelaide Venue Management Corporation. Ms King has previously been a Director and Deputy Chair of Adelaide Fringe Inc, Chair of Eastside Skillshare, Non-Executive Director of SA Ambulance Service and a Member of the Riverland Winegrowers Advisory Panel. Cathie provides strategic communications advice to Australian and international businesses in a variety of regulated industries, including the energy, health, waste and hospitality sectors.

Ms King was appointed to the Board in July 2017.

| Member | Board attendance | |
|---|---|---|
| | Eligible to attend | Meetings attended |
| J Kouts (Chair) | 11 | 11 |
| C Ward (Deputy) | 11 | 11 |
| S Edwards | 11 | 11 |
| D Royans | 11 | 11 |
| C Zollo | 11 | 11 |
| S Berggren | 11 | 10 |
| C King | 11 | 10 |

| Member | Audit Committee attendance | |
|---|---|---|
| | Eligible to attend | Meetings attended |
| J Kouts (Chair) | - | - |
| C Ward (Deputy) | - | - |
| S Edwards | 7 | 7 |
| D Royans | - | - |
| C Zollo | - | - |
| S Berggren | 7 | 7 |
| C King | 7 | 7 |

| Member | Asset & Liability Committee attendance | |
|---|---|---|
| | Eligible to attend | Meetings attended |
| J Kouts (Chair) | - | - |
| C Ward (Deputy) | 11 | 11 |
| S Edwards | - | - |
| D Royans | 11 | 11 |
| C Zollo | 11 | 10 |
| S Berggren | - | - |
| C King | - | - |

# Statutory **information**

## Work Health & Safety (WHS)

HomeStart is committed to ensuring and maintaining a safe work environment, with a focus on an injury free workplace while providing an environment where there is a high level of engagement.

To ensure that HomeStart continues to meet key requirements of WHS legislation, an internal audit was undertaken to review the WHS framework. This audit found our systems to be consistent with the scale and complexity of its operations, aligning it to a leadership, planning, implementation and performance evaluation model.

Activities to support a safe work environment include:

- Mental Health First Aid Officer training
- Regular emergency evacuation drills
- Regular Emergency Control Committee meetings
- Influenza vaccinations
- Provision of online training; mandatory and optional opportunities
- Provision of the Employee Assistance Program
- Conducting worksite inspections across all locations.

## WHS statistics

| Table 1: Work health and safety prosecutions, notices and corrective action taken | Number |
|---|---|
| Number of notifiable incidents pursuant to WHS Act Part 3 | 0 |
| Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices) | 0 |
| Number of prosecutions pursuant to WHS Act Part 2 Division 5 | 0 |
| Number of enforceable undertakings pursuant to WHS Act Part 11 | 0 |

**Table 2: Agency gross workers compensation expenditure[1] for 2018-19 compared with 2017-18[2]**

| Expenditure | 2017-18 $'000 | 2018-19 $'000 | Variation $'000 + (-) | % Change + (-) |
|---|---|---|---|---|
| Legal | 0 | 3 | 3 | Undefined |
| Medical – Allied Health | 0 | 0 | 0 | Undefined |
| Medical Services | 2 | 2 | 0 | Undefined |
| Other – Non-compensation | 0 | 0 | 0 | Undefined |
| Redemption of Medical Expenses | 0 | 0 | 0 | Undefined |
| **Total claims expenditure** | **2** | **5** | **3** | **150** |

[1] before 3rd party recovery
[2] information available from the Self Insurance Management System (SIMS)

## *Freedom of Information Act 1991* – Information Statement

HomeStart Finance is a statutory corporation, established by regulation under the *Urban Renewal Act 1995* 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 State Government.

## Policy documents

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

- HomeStart home loan brochures
- HomeStart guide to fees and charges
- HomeStart Privacy Policy
- HomeStart Credit Reporting Policy
- HomeStart Annual Report.

Copies of the above documents can be accessed from homestart.com.au or by contacting the Freedom of Information Officer on (08) 8203 4000.

## Access to personal information

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

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

## *Whistleblowers Protection Act 1993*

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

## Contractual arrangements

HomeStart did not enter into any procurement contracts during 2018-19 with a value greater than $4 million (GST inclusive), excluding property leases.

## Overseas travel

One HomeStart executive made an overseas work trip to Malaysia during 2018-19 speaking at a conference on housing finance and innovation.

## Public complaints

| Category of complaint by subject | Number |
|---|---|
| Complaints received through the Credit and Investments Ombudsman | 17 |
| Collections | 14 |
| Policy | 3 |
| Service | 0 |
| Complaints lodged with State Ombudsman | 0 |
| Complaints direct to HomeStart | 10 |
| Collections | 1 |
| Policy | 3 |
| Service | 6 |
| Other | - |
| **Total complaints** | **27** |

HomeStart is committed to conducting its business operations in accordance with the law as well as with best practice and Australian Standards. Consistent with this commitment, HomeStart's complaints handling policy is guided by AS ISO 10002-2006, which is reviewed annually. A customer complaints register provides valuable information and feedback to ensure that policies and procedures remain current.

## Consultancy expenditure

| Consultant | Purpose of consultancy | Number | Cost $'000 |
|---|---|---|---|
| **Total consultancies below $10 000** | Various | 2 | 12 |
| **Total consultancies $10 000 and above** | | 2 | 48 |
| Brett & Watson | Actuarial Reviews | | |
| Ernst & Young | Accounting Standard Support | | |
| **Total consultancies** | | **4** | **60** |

# Financials

# Sustainable financial management

In 2018-19, HomeStart achieved the financial targets set by the State Government, including an operating profit before tax of $23.3 million and representing a return on equity of 14.5% against a target of 9%.

HomeStart continued to provide substantial payments to the Government, amounting to $52 million for the year and totalling $665 million since HomeStart's inception in 1989.

Despite a challenging economic environment for HomeStart's business model, these results reflect our continued focus on achieving commercial objectives and prudent financial, risk and asset management policies balanced with our social obligations for customers and stakeholders.

HomeStart received a Community Service Obligation (CSO) reimbursement of $6.9 million in 2018-19 ($6.6 million, 2017-18) in recognition of the cost of providing our non-commercial activities.

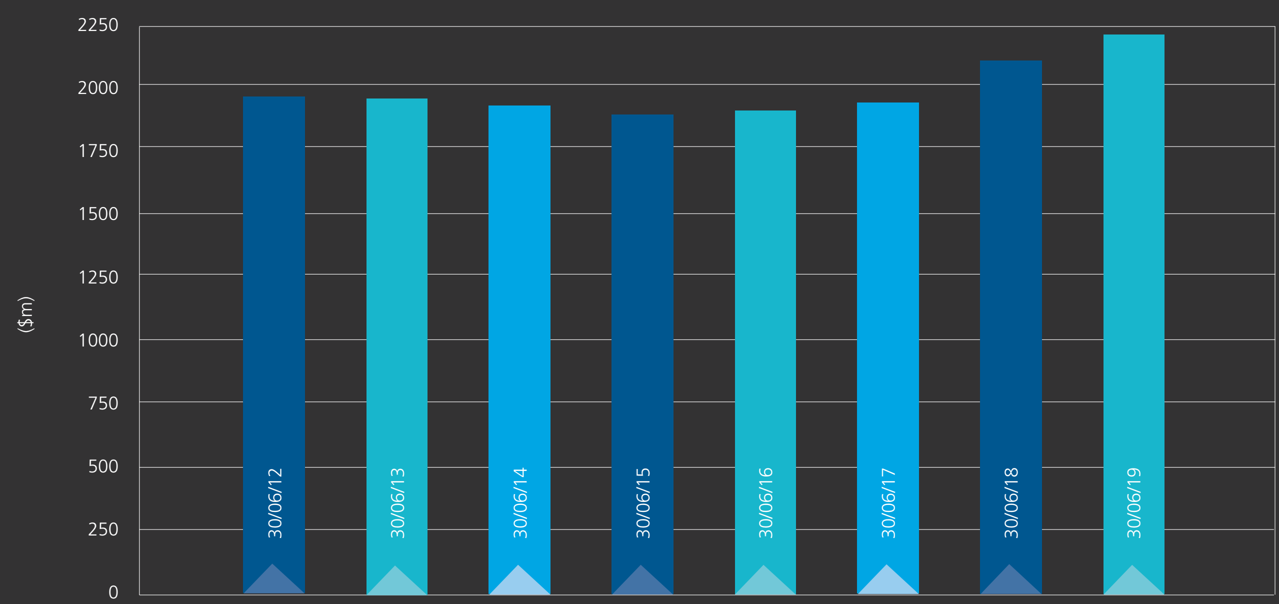
HomeStart's debt funding from SAFA was $2 billion against a borrowing limit of $2.2 billion. Our capital adequacy ratio was 12.5% (13.7%, 2017-18) against a target of 12%. HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, if necessary.

## Asset and liability management

The gross loan portfolio increased in 2018-19 to $2.2 billion ($2.1 billion, 2017-18) with strong lending volumes higher than discharges. Focused attention was given to growing the awareness of our product offerings, particularly through the growing mortgage broker sector, together with strong support for our new Graduate Loans, which target borrowers with educational qualifications and lower deposits.

In response to market trends, in particular commercial banks tightening their credit policies, HomeStart maintained its commitment to the ongoing availability of some higher risk products while at the same time adopting a prudent approach to credit quality and provisioning. This is achieved by utilising first class credit risk management systems to inform lending decisions, and to allocate and monitor appropriate benchmarks for portions of the lending portfolio.

## Gross **Portfolio size**



## Funding

HomeStart's lending is financed by its capital base and borrowings from the 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 comprehensive set of policies, approved by ALCO, outlines all treasury policies, processes and procedures, and the limitations within which our treasury functions must operate. These policies also govern the structure and approach to the management of our debt portfolio.

ALCO oversees the management of asset price setting and policy, and is ultimately responsible for the treasury operations of HomeStart. The Executive Committee is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

## Provisioning

HomeStart has recognised specific and collective provisions of $18.6 million ($17.5 million in 2017-18) against its loan portfolio. These provisions have been calculated in accordance with the new accounting standard AASB 9 Financial Instruments and are now presented as 12 months and lifetime expected credit losses.

HomeStart also maintains a general reserve for credit losses of $7.3 million ($8.1 million, 2017-18). The amount of the reserve has been determined in accordance with provisioning policies generally accepted within the finance industry prior to the adoption of Australian International Financial Reporting Standards (AIFRS), which HomeStart believes more accurately reflects 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.

Management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes adequate provisioning to meet potential loan losses in the future.

## Accounting policies

HomeStart has initially adopted AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers from 1 July 2018. The impacts of the adoption of these changes in accounting policies are disclosed in Note 3 to the financial statements. HomeStart has also assessed the impact of the new accounting standard AASB 16 Leases, which HomeStart will apply from 1 July 2019, and the estimated impact of the adoption of AASB 9 is disclosed in Note 3 to the financial statements.

| Financial indicators | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Operating profit ($m) | 14.4 | 16.4 | 17.0 | 15.6 | 17.0 | 20.3 | 18.9 | 23.3 |
| Return on equity | 9.22% | 10.26% | 10.21% | 9.09% | 10.29% | 12.57% | 11.52% | 14.49% |
| Net interest margin | 0.84% | 1.16% | 1.09% | 1.03% | 1.18% | 1.32% | 1.20% | 1.31% |
| **Balance sheet strength** | | | | | | | | |
| Capital ($m) | 154.5 | 164.2 | 169.3 | 173.2 | 157.3 | 165.4 | 162.2 | 159.2 |
| Provisions ($m) | 19.2 | 20.1 | 20.5 | 18.0 | 17.3 | 18.2 | 17.5 | 18.6 |
| Gross loan portfolio ($m) | 1975.2 | 1962.2 | 1907.6 | 1840.2 | 1867.7 | 1939.7 | 2103.1 | 2245.7 |
| Net loan losses ($m) | 0.54 | 0.84 | 0.90 | 0.40 | 0.81 | 0.17 | 0.07 | 0.02 |

## Financial contributions to the State Government

$664.4 million paid to the State Government since inception.

| Payment type ($m) | 1995[1] - 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Guarantee fee | 185.7 | 28.0 | 27.5 | 26.5 | 28.0 | 28.6 | 29.7 | 354.0 |
| SAFA[2] admin fee | 12.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.2 | 18.5 |
| Income tax | 57.2 | 5.0 | 5.1 | 4.9 | 5.2 | 6.2 | 6.0 | 89.6 |
| Dividends | 72.6 | 7.2 | 7.1 | 7.1 | 7.1 | 9.1 | 14.8 | 125.0 |
| Interim (special) dividend | 47.3 | 0.0 | 0.0 | 20.0 | 0.0 | 10.0 | 0.0 | 77.3 |
| **Total paid** | **374.9** | **41.3** | **40.7** | **59.5** | **41.3** | **55.0** | **51.7** | **664.4** |

[1] no payments made prior to 1995
[2] South Australian Government Financing Authority

# Certification of the Financial Statements

**For the year ended 30 June 2019**

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 2019 and the results of its operations and cash flows for the financial year.

We certify that the internal controls employed by HomeStart Finance for the financial year 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.

**Jim Kouts**
Chair
17 September 2019

**Chris Ward**
Deputy Chair
17 September 2019

**John Oliver**
Chief Executive Officer
17 September 2019

**David Hughes**
Chief Financial Officer
17 September 2019

# Statement of Comprehensive Income

## For the year ended 30 June 2019

| | Note No. | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| Interest income | 4 | 111 703 | 101 346 |
| Interest expense | 4 | ( 43 604) | ( 38 647) |
| **Net interest income** | 4 | **68 099** | **62 699** |
| Other income | 5 | 11 627 | 11 386 |
| Loan manager fees | | ( 3 446) | ( 3 876) |
| Employee benefits expenses | 6 | ( 12 335) | ( 12 027) |
| Bad and impaired loans expense | 10 | ( 1 470) | ( 2 353) |
| Depreciation and amortisation expense | 11 | ( 1 178) | ( 1 225) |
| Other expenses | 12 | ( 8 283) | ( 7 126) |
| Profit before income tax equivalents and government guarantee fee expenses | | 53 014 | 47 478 |
| Government guarantee fee | 9 | ( 29 727) | ( 28 605) |
| **Profit before income tax equivalents** | | **23 287** | **18 873** |
| Income tax equivalents expense | 2.2 | ( 6 986) | ( 5 662) |
| **Profit after income tax equivalents** | | **16 301** | **13 211** |
| Other Comprehensive Income | | | |
| *Items that will be reclassified subsequently to net results when specific conditions are met* | | | |
| Change in fair value of derivatives | | ( 1 825) | 1 470 |
| **Total other comprehensive income** | | ( 1 825) | 1 470 |
| **Total comprehensive result** | | **14 476** | **14 681** |

The accompanying notes form part of these financial statements. The profit after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.

# Statement of Financial Position

## As at 30 June 2019

| | Note no. | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 30.1 | 3 145 | 3 184 |
| Financial investments | 14 | 962 | 989 |
| Loans and advances | 15 | 2 208 115 | 2 065 848 |
| Other financial assets | 16 | 680 | 662 |
| Intangible assets | 17 | 4 373 | 3 076 |
| Property, plant and equipment | 18 | 2 608 | 2 749 |
| Other assets | 19 | 447 | 480 |
| **Total assets** | | **2 220 330** | **2 076 988** |
| **Liabilities** | | | |
| Payables | 21 | 4 629 | 4 211 |
| Derivative financial instruments | 31.2.2 | 4 202 | 2 377 |
| Short-term borrowings | 22 | 768 430 | 250 797 |
| Employee benefits | 23 | 2 237 | 2 333 |
| Income tax equivalents payable | 24.1 | 3 857 | 2 907 |
| Provision for dividend | 24.2 | 1 694 | 212 |
| Long-term borrowings | 22 | 1 272 000 | 1 647 000 |
| Other liabilities | 25 | 4 064 | 4 961 |
| **Total liabilities** | | **2 061 113** | **1 914 798** |
| **Net assets** | | **159 217** | **162 190** |

# Statement of Financial Position (cont.)

## As at 30 June 2019

| | Note no. | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Reserves | 26 | 3 104 | 5 707 |
| Retained earnings | | 156 113 | 156 483 |
| **Total equity** | | **159 217** | **162 190** |

The accompanying notes form part of these financial statements. The total equity is attributable to the SA Government as owner.

# Statement of Changes in Equity

## For the year ended 30 June 2019

| | Note | Retained earnings | General reserve for credit losses | Derivatives valuation reserve | Total Equity |
|---|---|---|---|---|---|
| | no. | $'000 | $'000 | $'000 | $'000 |
| **Balance at 30 June 2017** | | **160 914** | **8 334** | **( 3 847)** | **165 401** |
| **Profit after income tax equivalent for 2017-18** | | 13 211 | - | - | 13 211 |
| Change in fair value of derivatives | 2.5.5<br>31.4.2 | - | - | 1 470 | 1 470 |
| **Total comprehensive result for 2017-18** | | **13 211** | **-** | **1 470** | **14 681** |
| Transfer to/from credit loss reserve | 26 | 250 | ( 250) | - | - |
| **Transactions with SA Government as owner** | | | | | |
| Dividends paid/payable | 24 | ( 7 926) | - | - | ( 7 926) |
| Interim dividend paid | 24 | ( 9 966) | - | - | ( 9 966) |
| **Balance at 30 June 2018** | | **156 483** | **8 084** | **( 2 377)** | **162 190** |
| Adjustment on initial application of AASB 9 | 3.1 | ( 1 148) | - | - | ( 1 148) |
| **Adjusted balance at 1 July 2018** | | **155 335** | **8 084** | **( 2 377)** | **161 042** |
| **Profit after income tax equivalent for 2018-19** | | 16 301 | - | - | 16 301 |
| Change in fair value of derivatives | 2.5.5<br>31.4.2 | - | - | ( 1 825) | ( 1 825) |
| **Total comprehensive result for 2018-19** | | **16 301** | **-** | **( 1 825)** | **14 476** |
| Transfer to/from credit loss reserve | 26 | 778 | ( 778) | - | - |
| **Transactions with SA Government as owner** | | | | | |
| Dividends paid/payable | 24 | ( 16 301) | - | - | ( 16 301) |
| **Balance at 30 June 2019** | | **156 113** | **7 306** | **( 4 202)** | **159 217** |

The accompanying notes form part of these financial statements. All changes in equity are attributable to the SA Government as owner.

# Statement of Cash Flows

## For the year ended 30 June 2019

| | Note no. | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Cash inflows** | | | |
| Interest received on: | | | |
| Cash | | 31 | 35 |
| Loans and advances | | 108 197 | 97 569 |
| Fees and commissions received | | 1 936 | 2 110 |
| Bad debts recovered | | 146 | 193 |
| **Receipts from SA Government** | | | |
| EquityStart grant received | | 557 | 777 |
| Community Service Obligation subsidy received | | 6 921 | 6 576 |
| Other receipts | | 488 | 810 |
| **Cash generated from operations** | | 118 276 | 108 070 |
| **Cash outflows** | | | |
| Employee benefit payments | | ( 12 431) | ( 12 039) |
| Payments for supplies and services | | ( 7 474) | ( 7 521) |
| Payments to loan managers | | ( 3 997) | ( 4 549) |
| Borrowing costs paid | | ( 44 003) | ( 38 402) |
| Government guarantee fee paid | | ( 29 731) | ( 28 589) |
| Tax equivalent paid | | ( 6 036) | ( 6 234) |
| **Cash used in operations** | | ( 103 672) | ( 97 334) |
| **Net cash provided by operating activities** | 30.2 | 14 604 | 10 736 |

# Statement of Cash Flows (cont.)

## For the year ended 30 June 2019

| | Note no. | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| **Cash inflows** | | | |
| Shared appreciation components of Breakthrough Loan repaid | 32.4 | 4 781 | 6 916 |
| Shared appreciation components of Shared Equity Option Loan repaid | 32.4 | 35 | - |
| Proceeds from sale of office and computer equipment | | 6 | - |
| Proceeds from investments | | 27 | - |
| Customer loans repaid | | 321 472 | 316 055 |
| **Cash generated from investing activities** | | 326 321 | 322 971 |
| **Cash outflows** | | | |
| Purchase of property, plant and office and computer equipment | | ( 399) | ( 253) |
| Purchase of software | | ( 1 494) | ( 35) |
| Purchase of investments designated at fair value through profit or loss | | - | ( 163) |
| Shared appreciation component of Breakthrough Loan settled | 32.4 | - | ( 965) |
| Shared appreciation component of Shared Equity Option Loan settled | 32.4 | ( 3 580) | ( 135) |
| Customer loans settled | | ( 463 305) | ( 482 750) |
| **Cash used in investing activities** | | ( 468 778) | ( 484 301) |
| **Net cash provided by/(used in) investing activities** | | ( 142 457) | ( 161 330) |
| **Cash flows from financing activities** | | | |
| **Cash inflows** | | | |
| Proceeds from borrowings | | 200 000 | 468 072 |
| **Cash generated from financing activities** | | 200 000 | 468 072 |
| **Cash outflows** | | | |
| Dividends paid to SA Government | | ( 14 819) | ( 19 104) |
| Repayment of borrowings | | ( 57 367) | ( 300 000) |
| **Cash used in financing activities** | | ( 72 186) | ( 319 104) |
| **Net cash provided by financing activities** | 30.3 | 127 814 | 148 968 |
| **Net increase/ (decrease) in cash and cash equivalents** | | ( 39) | ( 1 626) |
| Cash and cash equivalents at the beginning of the period | | 3 184 | 4 810 |
| **Cash and cash equivalents at the end of the period** | 30.1 | 3 145 | 3 184 |

The accompanying notes form part of these financial statements.

# Notes to and forming part of the Financial Statements

## For the year ended 30 June 2019

**NOTE 1** Objectives of HomeStart Finance

HomeStart was established as a for-profit statutory corporation and operates under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007*. It reports to the Minister for Transport, Infrastructure and Local Government and Minister of Planning.

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

**HomeStart Home Loan**

HomeStart provides home loans principally to low to moderate income households and other needs groups. The HomeStart Home Loan is the primary loan product and the outstanding value of the product as at 30 June 2019 was $2 004.5 million ($1 938.5 million, 2017-18).

In addition, HomeStart offers a range of shared equity products and the outstanding value as at 30 June 2019 was $52.6 million ($54.4 million, 2017-18).

**Subsidies**

HomeStart provides subsidised Advantage Loans of up to $45 000 to lower income earners. For loans issued after 3 February 2014, the loan is interest bearing from the drawdown date, prior to that date the maximum loan was $30 615 and the loan was interest free if repaid within five years. The Advantage Loan interest is calculated by reference to the Consumer Price Index (CPI). As at 30 June 2019, the interest rate applying to Advantage Loans was 1.94% (2.52%, 2017-18). The outstanding value of Advantage Loans at 30 June 2019 was $78.1 million ($74.7 million, 2017-18).

For the year ended 30 June 2019, HomeStart received a Community Service Obligation (CSO) subsidy payment of $3.9 million ($3.8 million, 2017-18) 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 Housing SA 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 payments can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2019 was $33.0 million ($33.3 million, 2017-18). The EquityStart Loan product was no longer offered from May 2019.

HomeStart receives grant funding from the Department of Human Services, to compensate HomeStart for costs incurred in relation to EquityStart Loans. During the financial year, HomeStart received $0.6 million ($0.7 million, 2017-18) in EquityStart Loans grant funding.

**Funding**

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

## NOTE 2 Significant accounting policies

### 2.1 Basis of preparation

The financial report covers HomeStart as an individual entity. It is a statutory authority of the State of South Australia, established pursuant to the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007. HomeStart does not control any investee, has no joint arrangements and no interest in unconsolidated structured entities.

The financial statements are general purpose financial statements prepared in compliance with:

- Section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards.

HomeStart has applied Australian Accounting Standards that are applicable to for-profit entities, as HomeStart is a for-profit entity.

The financial statements are prepared based on a 12 month reporting period and presented in Australian currency.

For the 2018-19 financial statements HomeStart adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* and is required to comply with new *Treasurer's Instructions (Accounting Policy Statements)* issued on 22 March 2019. Further information is provided in note 3.1.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars ($'000), except when otherwise indicated.

### 2.2 Taxation

In accordance with Treasurer's Instructions 22 *Tax Equivalent Payments*, HomeStart is required to pay to the SA Government an income tax equivalent. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to the net profit. The current income tax liability relates to the income tax expense outstanding for the current period.

HomeStart is also 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:

- when the GST incurred on a purchase of goods or services is not recoverable from the ATO, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable
- receivables and payables, which 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 part of receivables or payables in the Statement of Financial Position.

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

## 2.3 Income

### 2.3.1 *Interest income – non-subsidised loans*

Interest income is recognised as it accrues using the effective interest rate method, except for impaired loans where interest income is recognised as it is recovered (as described in note 2.3.3).

### 2.3.2 *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 a loss that is recognised in the Statement of Comprehensive Income, the loss 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 rate method at a rate of interest, based on four year (for Advantage Loans settled before 3 February 2014), seven year (for Advantage Loans settled after 3 February 2014) and 10 year (for EquityStart Loans) South Australian Government Financing Authority (SAFA) Bonds.

### 2.3.3 *Interest income – both non-subsidised and subsidised impaired loans*

HomeStart ceases accruing interest income on loans when it considers that HomeStart would be unable to recover that interest income from either the customer or from the sale of the security. Interest on these loans is only brought to account when realised or when loans are returned to accruing status.

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

### 2.3.4 *Loan origination fees received or receivable*

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

The average life of loans in the originated loan portfolio used for loan fee income recognition is reviewed periodically to ensure the amortisation methodology is appropriate.

### 2.3.5 *Government grants*

Grants from the SA 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.

Government grants are recognised in the Statement of Comprehensive Income over the periods in which the related costs for which the grants are intended to compensate are recognised as expenses.

### 2.3.6 *Investment income*

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

### 2.3.7 *Net gain/loss from disposal of non-financial assets*

Net gain or loss from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and is 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 an income or an expense.

### 2.3.8 *Other income*

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

## 2.4 Expenses

### 2.4.1 *Government guarantee fee*

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

### 2.4.2 *Loan origination fees paid or payable*

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

The average life of loans in the originated loan portfolio used for loan origination expense recognition is reviewed periodically to ensure the amortisation methodology is appropriate.

### 2.4.3 *Employee benefits expenses*

Employee benefits expenses include all costs related to employment including wages, salaries, non-monetary benefits and leave entitlements. The expenses are recognised in the period in which services are rendered by the employees.

### 2.4.4 *Operating lease expense*

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. The straight-line basis 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.

## 2.5 Assets

Assets are classified in the Statement of Financial Position by their nature and in an order that reflects their relative liquidity. Assets have not been offset unless required or permitted by a specific accounting standard.

Current and non-current classes are not generally presented separately.

### 2.5.1 *Cash and cash equivalents*

Cash and cash equivalents in the Statement of Financial Position include cash at bank and on hand and other short-term, highly liquid investments with maturities of three months or less that are readily convertible to cash and which are subject to insignificant risk of changes in value.

### 2.5.2 *Financial assets*

During the current and comparative financial years HomeStart had the following financial assets:

- cash and cash equivalents (refer to accounting policy note 2.5.1)
- loans and advances at amortised costs (refer to accounting policy note 2.5.3.1)
- investments at amortised cost (2018: fair value through profit or loss) - managed funds (refer to accounting policy note 2.5.2.1)
- loans and advances at fair value through profit or loss - Shared Equity loans (including Breakthrough and Shared Equity Option) (refer to accounting policy note 2.5.3.2)
- loans and advances at fair value through profit and loss - Seniors Equity loans (refer to accounting policy note 2.5.3.2) (2018: amortised cost)
- derivative financial instruments (refer to accounting policy note 2.5.5)

**Policy application before 1 July 2018**

HomeStart classified its financial assets into one of the following categories:

- loans and receivables
- at FVTPL, within as designated as at FVTPL

*Loans and receivables*

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

*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 into account 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.

*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 loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the effective interest rate.
The carrying amount of assets carried at amortised cost is reduced to the recoverable amount through the use of a provision account. The amount of the loss is recognised in the Statement of Comprehensive Income. An impairment loss in respect of 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.

*Provision for impairment*

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

Loans and advances are individually assessed for impairment. If HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the Statement of Comprehensive Income.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. 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. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

*Bad debts*

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

**Policy application from 1 July 2018**

**Initial measurement and classification**

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Financial assets are classified, at initial recognition, as either fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and HomeStart's business model for managing them.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

– financial assets at amortised cost (debt instruments)
– financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
– financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
– financial assets at fair value through profit or loss

**Financial assets at amortised cost (debt instruments)**

HomeStart measures financial assets at amortised cost if both of the following conditions are met:

– The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Other than the shared equity loans (Breakthrough and Shared Equity Option loans) and Senior Equity loans, all HomeStart loans are classified and measured at amortised cost. Refer to Note 2.5.3.1.

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.
The net gain or loss includes any increase/decrease in the value of financial asset, any dividend or interest earned on the financial asset.

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

The two shared equity loan products (Breakthrough and Shared Equity Option) and Seniors Equity loans are mandatorily required to be measured at fair value through profit and loss as the contractual terms of the loans do not give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Refer to note 2.5.3.2.

**Business model assessment**

HomeStart makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to HomeStart’s management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Assessment as to whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, HomeStart considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, HomeStart considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit HomeStart's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest rates on certain retail loans made by HomeStart are based on standard variable rates ("SVRs") that are set at the discretion of HomeStart. SVRs are generally based on a central bank rate and also include a discretionary spread. In these cases, HomeStart will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay their loans without significant penalties;
- the market competition ensures that interest rates are consistent across lenders; and
- any regulatory or customer protection framework is in place that requires lenders to treat customers fairly.

All of HomeStart's retail loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

**Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after HomeStart changes its business model for managing financial assets.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from HomeStart's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- Where HomeStart has transferred contractual rights to receive cash flows of the financial asset and substantially all the risks and rewards of ownership.

**2.5.2.1 Financial investments**

From 1 July 2018, on initial application of AASB 9, the investments in SAFA cash management funds are measured at amortised cost as the cash flows from the investment represent SPPI and the investment is held with the objective to collect contractual cash flows.

Before 1 July 2018, HomeStart designated the investment in SAFA cash management fund as financial asset as at fair value through profit or loss because the investment was managed, evaluated and reported internally on a fair value basis.

**2.5.3 Loans and advances**

**2.5.3.1 Loans and advances at amortised cost - Policy application from 1 July 2018**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These loans and advances meet the SPPI test and are held within a business model with the objective to collect contractual cash flows and are therefore measured at amortised cost.

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily broker and origination fees. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

*Subsidised Loans*

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. The loans are measured at amortised cost.

*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.

**Impairment - Loans and advances**

HomeStart recognises loss allowances for expected credit losses ("ECL") on loans and advances at amortised cost.

HomeStart estimates ECL through modelling the probability of default, loss given default and exposure at default, as follows:

– Stage 1 - Performing - This category includes financial assets that have not experienced a significant increase in credit risk since their origination. For these financial assets an allowance equivalent to 12 month's ECL is recognised, which represents the credit losses expected to arise from defaults occurring over the next 12 months.

– Stage 2 - Under-performing - This category includes financial assets that have experienced a significant increase in credit risk since their origination and are not credit impaired. For these financial assets an allowance equivalent to lifetime ECL is recognised. Lifetime ECL is the credit losses expected to arise from defaults occurring over the estimated remaining life of financial assets.

– Stage 3 - Non-performing (impaired) - This category includes financial assets that are credit impaired. The provision is also equivalent to the lifetime ECL.

Financial assets in stage 1, 2 and 3 are assessed for impairment collectively using an ECL model. In addition, assets subject to specific impairment assessment are included in Stage 3. HomeStart's methodology for specific provisions (Stage 3) remains largely unchanged from the methodology adopted under AASB 139 prior to 1 July 2018.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

– *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that HomeStart expects to receive);
– *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.

**Credit-impaired financial assets**

At each reporting date, HomeStart assesses whether financial assets carried at amortised cost are credit-impaired and therefore in default (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is in default and therefore Stage 3 credit-impaired includes the following observable data:

– the borrower is unlikely to pay its credit obligations to HomeStart in full, without recourse by HomeStart to actions such as realising security (if any is held);

- rebuttable presumption that loans which are 90 days or more past due are considered credit-impaired;
- significant financial difficulty of the borrower;
- the granting of a concession relating to financial difficulty that would not otherwise normally be extended to a borrower.

Potential losses are determined on loans where reasonable doubt exists about collectability of principal and interest under the terms of the loan contract. This includes all loans where the estimated realisable value of the security is insufficient to cover principal, interest and costs and:

- arrears exceed the lesser of 3 normal monthly instalments or $4 000; or
- repayment reductions have been negotiated; or
- loans are under an accepted hardship application; or
- loans are currently under management by HomeStart due to non-performance; or
- action is being taken to enforce realisation of security (mortgagee-in-possession).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

It is HomeStart's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least three consecutive months.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position using a provision account and the amount of the loss is included in the Statement of Comprehensive Income.

**Write-off**

HomeStart's accounting policy with respect to write-offs under AASB 9 remains the same as it was under AASB 139. All bad debts are written-off in the period in which they are classified as not recoverable. This is generally the case when HomeStart determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

Loans that are written off could still be subject to enforcement activities in order to comply with HomeStart's procedures for recovery of amounts due.

**Inputs, assumptions and techniques used for estimating impairment**

*Significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, HomeStart considers both quantitative and qualitative information, including expert credit risk assessment, forward looking information and analysis based on HomeStart's historical experience.

When modelling of a parameter is carried out on a collective basis, the loans are assessed on a portfolio basis taking into account differing credit risks with segmentation in groups as follows:

- Graduate loans
- Low deposit loans
- Standard other loans - metropolitan regions
- Standard other loans - non-metropolitan regions

HomeStart uses the following criteria for determining whether there has been a significant increase in credit risk:

- there is an adverse movement in credit risk or loan performance score since inception;
- the current outstanding balance has capitalised;
- a backstop of 30 days past due.

*Calculation of expected credit losses*

Expected credit losses (ECLs) are calculated using three main parameters i.e. a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from statistical models combined with historical, current and forward looking information, including macro-economic data.

For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and estimated remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

The LGD represents expected loss conditional on default, taking into account the collateral, its expected value when realised and the time value of money.

The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining estimated life multiplied by LGD and EAD.

**Incorporation of forward-looking information**

HomeStart incorporates forward-looking information into both the assessment of whether the credit risk of a loan portfolio has increased significantly since its initial recognition and the measurement of ECL.

HomeStart formulates three economic scenarios: a base case, which is the median scenario assigned a 60% probability of occurring, and two less likely scenarios, one upside assigned a 15% probability of occurring and one downside assigned a 25% probability of occurring (2018: upside and downside each assigned a 20% probability of occurring). The base case is aligned with information used by the HomeStart for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities and selected private-sector and academic forecasters.

HomeStart has identified and documented key drivers of credit risk and credit losses for each portfolio of loans and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Key macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, house prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points, will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed annually.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 2 years.

#### 2.5.3.2 Loans and advances at fair value through profit or loss

**Policy application before 1 July 2018**

*Shared appreciation component of the Breakthrough and Shared Equity Option Loans*

The Breakthrough and Shared Equity Option Loan facility includes two loan components (the Breakthrough Loan was discontinued from 1 December 2017 and the Shared Equity Option Loan commenced in April 2018):

– a standard loan component with interest rates and repayments which operate under identical terms to HomeStart's current standard loan product. This portion of the Breakthrough and Shared Equity Option Loan is initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method and taking into account principal repayments and impairment losses, and

– a shared appreciation component where repayment of the loan balance is generally deferred until the sale or refinance of the property upon which time the loan balance is repaid along with a scheduled percentage of the appreciated value of the property. The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

*Seniors Equity Loans*

– the Seniors Equity loans were classified as loans and advances at amortised cost.

**Policy application from 1 July 2018**

*Shared appreciation component of the Breakthrough and Shared Equity Option Loans*

The Breakthrough and Shared Equity Option Loan facility includes two loan components (the Breakthrough Loan was discontinued from 1 December 2017 and the Shared Equity Option Loan commenced in April 2018):

– a standard loan component with interest rates and repayments which operate under identical terms to HomeStart's current standard loan product. Refer to accounting policy note 2.5.3.1 loans and advances at amortised cost.
– a shared appreciation component where repayment of the loan balance is generally deferred until the sale or refinance 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 fails the SPPI test and therefore, they are classified as FVTPL. Gains or losses arising from changes in fair value are presented in the Statement of Comprehensive Income in the period in which they arise.

The fair value of the shared appreciation loan component is based on independent valuations of the properties pledged as collateral.

*Seniors Equity Loans*

The Seniors Equity loans are classified as FVTPL as the inclusion of the no negative equity guarantee results in the loan failing the SPPI test. The fair value of the no negative equity guarantee component of the Senior Equity loans is based on actuarial valuation by applying assumptions around mortality, property value and interest rates.

### 2.5.4 Non-financial assets

#### 2.5.4.1 *Property, plant and equipment*

Property, plant and equipment are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition. Property, plant and equipment are subsequently measured at cost after allowing for accumulated depreciation.

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 recognised at book value, i.e. the amount recorded by the transferor immediately prior to transfer.

Where the payment for an asset is deferred, HomeStart measures the obligation at the present value of the future outflow, discounted using the interest rate of a similar length borrowing.

At the expiration of the lease of its office accommodation, HomeStart is required in accordance with 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.

All property, plant and equipment with a value equal to or in excess of $1 000 are capitalised.

#### 2.5.4.2 *Intangible assets*

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition (identifiability, control and existence of future economic benefits) 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 $1 000.

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 useful life of the asset, which is generally between 4 and 10 years.

Costs in relation to website development, 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. Maintenance costs are expensed.

#### 2.5.4.3 *Impairment and revaluation*

All non-current tangible assets are valued at written down current cost and revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than $1.5 million ($1.0 million, 2017-18) 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.

HomeStart expects that for all non-current tangible assets the costs of disposal will be negligible, and the recoverable amount to be close to or greater than the asset's fair value.

### 2.5.4.4 *Depreciation and amortisation of non-financial assets*

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 tangible assets such as office and computer equipment.

The residual values, useful lives of all major assets held by HomeStart, depreciation and amortisation methods are reviewed and adjusted if appropriate on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimates.

The value of leasehold improvements is depreciated over the estimated useful life of each improvement or the unexpired period of the relevant lease, whichever is shorter.

Depreciation and amortisation of non-financial assets are calculated on a straight line basis over the estimated useful life of the following classes of assets for the current and comparative periods as follows:

| Class of asset | Depreciation and amortisation method | Useful life (years) |
|---|---|---|
| Leasehold improvements | Straight line | 2 – 10 |
| Other office and computer equipment | Straight line | 2 – 10 |
| Furniture and fittings | Straight line | 3 – 10 |
| Intangible assets | Straight line | 4 – 10 |

### 2.5.5 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 or trading purposes. However, derivatives that are not in a hedge relationship are accounted for at FVTPL.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured to their 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.

HomeStart enters into interest rate swaps with SAFA to manage interest rate risk. 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 32.1. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

HomeStart has adopted hedge accounting requirements of AASB 9 from 1 July 2018. Although there has been no change in the accounting for hedging instruments, changes have been made to the hedging effectiveness documentation and assessment of the hedging transactions.

HomeStart assesses hedge effectiveness using the hypothetical derivative/matched terms method, which creates a derivative instrument to serve as a proxy for the hedged transaction. The hedging instrument is being designated with a non-zero day 1 fair value as it was designated post inception of the trade. However, the hypothetical has a day 1 value equal to zero. All other critical terms of the hedge relationship match at inception and are expected to match in future.

Under HomeStart's policy, in order to conclude that the hedging relationship is effective, all of the following criteria should be met.

- the notional currency amount on the hedging instrument equals the notional currency amount of the hedged item;
- the fair value of the derivative at inception was zero (i.e. derivative was entered into an available market rates);
- the currency is the same for both the hedged item and the hedging instrument;
- the interest settlement dates on the hedging instrument match the expected settlement dates of the forecasted transaction or firm commitment;
- the change in the expected cash flows of the forecasted transaction or firm commitment is based on the same index;
- for updates of assessment, there have been no adverse changes in the risk of counterparty default.

There is a clear economic relationship as both the hedging instrument and hedged item are referenced to the same interest rate index. Therefore a high degree of offset would be expected.

The hedge ratio between interest rate swap hedges and the underlying AUD floating rate debt will be 100%. Both the hedged item and hedging instrument are referenced to the same interest rate index; there is no basis risk, and no material cash flow timing differences.

No material sources of ineffectiveness are expected.

#### 2.5.5.1 *Cash flow hedges*

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

Hedge effectiveness tests are performed on all derivative financial instruments to determine if they continue to be effective in managing the hedged risk 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 remains until the forecast transaction affects the profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to the Statement of Comprehensive Income as a reclassification adjustment.

### 2.6 Liabilities

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard.

### 2.6.1 *Interest-bearing borrowings*

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are measured at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest rate method.

### 2.6.2 *Lease incentive*

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the consideration agreed for the use of the leased asset. Incentives received to enter into operating leases are recognised as liabilities and amortised over the lease term.

### 2.6.3 *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 of outstanding liabilities for salaries and wages, long service leave and annual leave.

All payables are measured at their nominal amount, are unsecured 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).

### 2.6.4 *Employee benefits*

Employee benefits accrue as a result of services provided by the employees up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term benefits are measured at nominal amounts allowing for known increases from 1 July.

#### *Long-term service leave*

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

#### *Salaries and wages, annual leave and sick leave*

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at 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.

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 for sick leave.

## 2.7 Other provisions

Provisions are recognised when HomeStart has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

## 2.8 Fair value measurement

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

HomeStart classifies fair value measurement using fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- 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).

The valuation processes and fair value changes are reviewed at each reporting date.

## 2.9 Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingent liabilities are disclosed on a gross basis.

## 2.10 Insurance

HomeStart has arranged through SA Government Captive Insurance Corporation (SAICORP) to insure all insurable risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held. In addition, HomeStart insures over mortgagee in possession properties using Arthur J. Gallagher & Co.

### 2.11 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 below:

| Area of estimate and judgement | Note no. |
|---|---|
| Loans and advances at fair value through profit or loss – shared equity loans and seniors equity loans | 2.5.2, 2.5.3.2, 31.4, 32.2 & 32.3 |
| Fair value of subsidised loans and advances | 2.5.3 |
| Loan origination fees received or receivable | 2.3.4 |
| Loan origination fees paid or payable | 2.4.2 |
| Provision for impairment of loans and advances | 2.5.3 |
| Derivative financial instruments | 2.5.5, 31.2.2, 32.2 |
| Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. | 2.5.2, 2.5.3 |

## NOTE 3.1 Changes in accounting policies

HomeStart has initially adopted AASB 9 (see A) and AASB 15 (see B) from 1 July 2018.

A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on HomeStart's financial statements.

Due to the transition method chosen by HomeStart in applying AASB 9 and AASB 15, comparative information throughout these financial statements has not been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase of $1.1 million in impairment losses recognised on loans and advances at amortised cost related to AASB 9 (see note below, note 2.5.3.1 and 15.1);
- $75.3 million of loans and advances were reclassified from amortised cost to fair value through profit or loss related to AASB 9 (see note below, note 2.5.3.2 and 15.1); and
- additional disclosures related to AASB 9 (see notes 2.5.3.1 and 15.1).

Except for the changes below, HomeStart has consistently applied the accounting policies as set out in Note 2 to all periods presented in these financial statements.

**A. AASB 9 Financial Instruments**

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement.* The requirements of AASB 9 represent a significant change from AASB 139. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities and changes to hedge accounting requirements.

Additionally, HomeStart has adopted consequential amendments to AASB 7 *Financial Instruments: Disclosures* that are applied to disclosures for the year ended 30 June 2019, but have not been applied to the comparative information.

The key changes to HomeStart's accounting policies resulting from its adoption of AASB 9 are outlined further in this note.

**Classification of Financial Assets and Financial Liabilities**

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. AASB 9 classification is based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how HomeStart classifies financial assets under AASB 9, see note 2.5.2 and 2.5.3.

**Reclassification of Financial Instruments on adoption of AASB 9**

On 1 July 2018, HomeStart has assessed and reclassified its financial assets into the appropriate AASB 9 categories depending on the business model and contractual cash flow characteristics applying to the asset. The changes in classification and measurement are noted below.

*Impact*

A reconciliation between the carrying amounts under AASB 139 to the balances reported under AASB 9 as of 1 July 2018 is, as follows:

| | AASB 139 measurement | | Remeasurement | Reclassification | AASB 9 measurement | |
|---|---|---|---|---|---|---|
| | Category | Amount $'000 | ECL $'000 | $'000 | Amount $'000 | Category |
| **Assets** | | | | | | |
| Financial Investments [1] | Designated at FVTPL | 989 | - | - | 989 | Amortised cost |
| Loans and advances [2] [3] | Loans and receivables | 2 011 487 | ( 1 148) | ( 75 312) | 1 935 027 | Amortised cost |
| Loans and advances [3] | FVTPL | 54 361 | - | 75 312 | 129 673 | FVTPL |
| Other financial assets | Loans and receivables | 662 | - | - | 662 | Amortised cost |
| **Liabilities** | | | | | | |
| Payables | Amortised cost | 4 211 | - | - | 4 211 | Amortised cost |
| Short term borrowings | Amortised cost | 250 797 | - | - | 250 797 | Amortised cost |
| Long term borrowings | Amortised cost | 1 647 000 | - | - | 1 647 000 | Amortised cost |
| Derivative financial instruments | FVOCI | 2 377 | - | - | 2 377 | FVOCI |

(1) On initial application of AASB 9, investment in SAFA cash management fund with a carrying amount of $1.0 million was reclassified from financial investments designated at FVTPL to financial investments at amortised cost. There was no re-measurement impact associated with this reclassification.

(2) The initial application of the expected credit loss requirements of AASB 9, resulted in increases in provisions for credit impairment to loans and advances at amortised cost of $1.1 million. The impact of $1.1 million was recognised as a reduction to Retained Earnings.

(3) On initial application of AASB 9 Seniors Equity Loans of $75.3 million were reclassified from loans at amortised cost to loans at FVTPL. There was no material re-measurement impact associated with this reclassification.

Classification and measurement of financial liabilities was unchanged on transition.

**Impairment of Financial Assets**

AASB 9 replaces the ‘incurred loss’ model in AASB 139 with an ‘expected credit loss’ (ECL) model.

Under AASB 9, credit losses are recognised earlier than under AASB 139. For an explanation of how HomeStart applies the impairment requirements of AASB 9, see note 2.5.3.1.

HomeStart has developed a AASB 9 ECL model, which replaces the previous incurred loss approach under AASB 139. The new model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised, resulting in an acceleration of impairment recognition. HomeStart applies a three-stage approach to measuring the ECL based on credit risk since origination as they transition through the three stages.

It is important to note that the increase in impairment provisions on transition to AASB 9 is not reflective of a change in underlying portfolio credit quality.

*Transition to ECL Model*

Financial assets that are credit-impaired are defined by AASB 9 in a similar way to financial assets that are impaired under AASB 139 (see note 2.5.3.1 and 31.2.1).

The impairment requirements have been applied retrospectively by adjusting opening retained earnings at 1 July 2018. HomeStart has elected not to restate prior period comparative balances on adoption of the new standard.

*Impact*

The following table provides a pre-tax breakdown of the transition to AASB 9 ECL model from AASB 139 as at 1 July 2018 for loans and advances at amortised cost:

| | AASB 139 | AASB 9 | Movement |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Stage 1 - 12-mth ECL (Collective provision) | - | 3 427 | - |
| Stage 2 - Lifetime ECL not credit impaired (Collective provision) | - | 7 331 | - |
| Stage 3 - Lifetime ECL credit impaired (Collective provision) | - | 360 | - |
| Total Collective Provision | 9 970 | 11 118 | 1 148 |
| Stage 3 - Lifetime ECL credit impaired (Specific provision) | 7 501 | 7 501 | - |
| Total provision for credit impairment | 17 471 | 18 619 | 1 148 |

HomeStart's opening balance sheet adjustment, based on the economic conditions, forecast economic scenarios, management judgements and assumptions as at 1 July 2018, was an increase in provision for credit impairment of $1.148 million before tax, with a corresponding decrease in retained earnings.

The increase in the provision for credit impairment on adoption of the standard has been taken through opening retained earnings as at 1 July 2018, with no impact on the income statement.

**Transition**

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings as at 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of AASB 9 and therefore is not comparable to the information presented for 2019 under AASB 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

There are no changes to the carrying amounts of financial assets and financial liabilities resulting from the reclassification of financial instruments on adoption of AASB 9.

For more information and details on the changes and implications resulting from the adoption of AASB 9, see note 2.5.2, 2.5.3, 14 and 15.

**B. AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.

HomeStart initially applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 108 without any practical expedients. The timing or amount of HomeStart's fee and commission income from contracts with customers was not impacted by the adoption of AASB 15.

**C. Treasurer's Instructions (Accounting Policy Statements)**

On 22 March 2019 the Treasurer's Instructions (Accounting Policy Statements) 2019 were issued by the Treasurer under the Public Finance and Audit Act 1987. The Accounting Policy Statements replaced the following Accounting Policy Frameworks:

- Purpose and Scope
- General Purpose Financial Statements Framework
- Asset Accounting Framework
- Financial Asset and Liability Framework
- Income Framework
- Definitions.

The new Accounting Policy Statements have largely been prepared on a no-policy change basis. Changes that impact on these financial statements are:

- removal of the additional requirement to report transactions with the SA Government.
- increasing the bands from $10,000 to $20,000 for employee and board member reporting.

These changes, however, do not impact on the amounts reported in the financial statements.

The total impact on HomeStart's retained earnings as at 1 July 2018 is as follows:

| | **$'000** |
|---|---|
| **Closing Retained Earnings 30 June 2018** | 156 483 |
| Recognition of AASB 9 ECLs | ( 1 148) |
| **Opening Retained Earnings 1 July 2018** | **155 335** |

## NOTE 3.2 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted; however, HomeStart has not early adopted them in preparing these financial statements.

Of those standards that are not yet effective, AASB 16 is expected to have a significant impact on the HomeStart's financial statements in the period of initial application.

**AASB 16 Leases**

HomeStart is required to adopt AASB 16 *Leases* from 1 July 2019. HomeStart has assessed the estimated impact that the initial application of AASB 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 July 2019 may change because the new accounting policies are subject to change until HomeStart presents its first financial statements that include the date of initial application.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

AASB 16 replaces existing leases guidance, including AASB 17 *Leases, Interpretation 4 Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives and Interpretation* 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The *Treasurer's Instructions (Accounting Policy Statements) 2019* sets out key requirements that HomeStart must adopt for the transition from AASB 117 *Leases* to AASB 16 *Leases*. These requirements include that HomeStart will:

- apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard will be recognised at 1 July 2019. Comparatives will not be restated.
- only apply AASB 16 to contracts that were previously identified as containing a lease applying AASB 117 and related interpretations.
- not transition operating leases for which the lease term ends before 30 June 2020.

The *Treasurer's Instructions (Accounting Policy Statements) 2019* also sets out requirements for on-going application. These requirements include that HomeStart will:

- not apply AASB 16 to leases of intangible assets.
- adopt $15,000 as the threshold to determine whether an underlying asset is a low value asset and must apply the low value asset recognition exemption to all low value assets.
- apply the short-term leases recognition exemption for all classes of underlying asset.
- separate non-lease components from lease components.
- adopt the revaluation model, where permitted.
- where required, apply the relevant lessee's incremental borrowing rate published by the Department of Treasury and Finance.
- on initial recognition not record at fair-value leases that have significantly below-market terms and conditions principally to enable HomeStart to further its objectives, unless they have already been recorded at fair-value prior to 1 July 2019.

*Impact on 2019-20 financial statements*

HomeStart has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 with the transition requirements mandated by the *Treasurer's Instructions (Accounting Policy Statements)*.

AASB 16 requires lessees to recognise assets and liabilities for all leases, not subject to a recognition exemption or scoped out of the application of AASB 16. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time. Lease incentive liabilities previously recognised will be written off against the right-of-use assets or retained earnings depending on the nature of the incentive. In addition, the make good costs included in the cost of HomeStart's leasehold improvements will be transferred to the right-of-use assets.

AASB 16 is expected to have a material impact on the Statement of Financial Position. HomeStart has estimated the impact of this change and the results as at 1 July 2019.

The estimated impact is based on applying AASB 16’s transition approach to those leases identified as leases by HomeStart prior to 1 July 2019. The incremental borrowing rates applied to estimate the lease liability were SAFA’s published interest rates for principal and interest loans to SA Government agencies for 1 July 2019.

The estimated impact is set out below.

| | as at 1 July 2019 |
|---|---|
| **Assets** | **$'000** |
| Right-of-use assets | 7 752 |
| PP&E Leasehold improvements | ( 243) |
| | |
| **Liabilities** | |
| Lease liability | ( 9 564) |
| Other liabilities (operating lease liability) | 1 288 |
| **Net impact on equity** | **( 767)** |

HomeStart will recognise new assets and liabilities for its operating leases of office premises and motor vehicles. The nature of expenses related to these leases will now change because AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, HomeStart recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

HomeStart has assessed the potential impact on the 2019-20 Statementof Comprehensive Income and believe this to be immaterial for disclosure.

**Related accounting policies**

*Transition*

HomeStart plans to apply AASB 16 initially on 1 July 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

## NOTE 4 Net interest income

| Interest income | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Loans and advances | 106 221 | 95 791 |
| Subsidised loans effective interest income | 4 113 | 4 034 |
| Subsidised loans fair value expense | ( 1 745) | ( 1 562) |
| Loan origination income amortisation | 3 083 | 3 048 |
| Deposits with banks | 31 | 35 |
| **Total interest income** | **111 703** | **101 346** |
| **Interest expense** | | |
| Borrowings from SAFA | ( 43 604) | ( 38 647) |
| **Total interest expense** | **( 43 604)** | **( 38 647)** |
| **Net interest income** | **68 099** | **62 699** |

## NOTE 5 Other income

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Fees and charges | 2 734 | 2 776 |
| Bad debts recovered | 146 | 193 |
| Unrealised gain in fair value of loans at FVTPL* | - | 355 |
| Realised change in fair value of loans at FVTPL | 412 | 722 |
| EquityStart grant | 1 343 | 702 |
| Community Service Obligation (CSO) subsidy | 6 921 | 6 576 |
| Other | 71 | 62 |
| **Total other income** | **11 627** | **11 386** |

*The shared appreciation component of the Breakthrough and Shared Equity Option Loan is measured at fair value through profit or loss. The fair value of this loan component is estimated based on independent valuations of the properties pledged as collateral. Unrealised losses, if any, are disclosed in note 12 Other expenses.

**EquityStart grant funds and CSO subsidy received**

During the financial year, HomeStart received $0.6 million ($0.7 million, 2017-18) in grant funds from the Department of Human Services to compensate HomeStart for costs incurred in relation to EquityStart Loans and also recognised as income $0.7 million from prior year EquityStart grant funds.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loans and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012, the 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 2019 ($nil, 2017-18).

Refer to note 2.3.5 for information in relation to the recognition of government grants.

## NOTE 6 Employee benefits expenses

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Salaries and wages | 10 054 | 10 005 |
| Long service leave (LSL) | 240 | 227 |
| Annual leave | 75 | 57 |
| Employment on-costs* – superannuation | 961 | 938 |
| Employment on-costs – other | 553 | 521 |
| Workers compensation | 188 | 18 |
| Board and committee fees | 264 | 261 |
| **Total employee benefits expenses** | **12 335** | **12 027** |

*The superannuation employment on-cost charge represents HomeStart's contribution to superannuation plans in respect of current services of current employees.

## NOTE 7 Employee remuneration and number of employees

| **Remuneration of employees** | **2019 No.** | **2018 No.** |
|---|---|---|
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| $149 000 to $151 000 (*) | n/a | 1 |
| $151 001 to $171 000 | 4 | 6 |
| $171 001 to $191 000 | 1 | 2 |
| $191 001 to $211 000 | 4 | 3 |
| $211 001 to $231 000 | - | - |
| $231 001 to $251 000 | - | 1 |
| $251 001 to $271 000 | - | 1 |
| $271 001 to $291 000 | 1 | 1 |
| $291 001 to $311 000 | - | - |
| $311 001 to $331 000 | - | - |
| $331 001 to $351 000 | - | - |
| $351 001 to $371 000 | - | - |
| $371 001 to $391 000 | - | - |
| $391 001 to $411 000 | - | - |
| $411 001 to $431 000 | 1 | 1 |
| **Total** | **11** | **16** |

*This band has been included for the purposes of reporting comparative numbers based on the executive base level remuneration rate for 2017-18.

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, salary sacrifice, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits. The total remuneration received by these employees for the year was $2.35 million ($3.24 million, 2017-18).

**Number of employees**

HomeStart employed 114 people at the end of the reporting period (110, 2017-18).

## NOTE 8 Key management personnel

Key management personnel of HomeStart include the Minister for Transport, Infrastructure and Local Government, members of the Board, the Chief Executive Officer and the three members of the executive team who have responsibility for the strategic direction and management of HomeStart.

The Minister is considered a member of the key management personnel of HomeStart due to the power provided under the *Urban Renewal Act 1995* for the Minister to control and direct HomeStart.

The compensation detailed below excludes salaries and other benefits the Minister receives, the Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990* .

**(a) Board members**

The following persons held the position of governing board member of HomeStart for the full financial year:

| | |
|---|---|
| Mr | Jim Kouts (Chair) |
| Mr | Chris Ward (Deputy Chair) |
| Ms | Sue Edwards |
| Mr | Darryl Royans |
| Ms | Carmel Zollo |
| Ms | Shanti Berggren |
| Ms | Catherine Anne King |

**(b) Other key management personnel**

The following persons also held positions of authority and responsibility for planning, directing and controlling the activities of HomeStart, directly or indirectly for the entire financial year (unless otherwise indicated):

| | | | |
|---|---|---|---|
| Mr | John Oliver | Chief Executive Officer | |
| Mr | David Hughes | Chief Financial Officer | |
| Ms | Kay Lindley | Chief Risk Officer | |
| Mr | Andrew Mills | Head of Strategic Development | |
| Ms | Deb Dickson | Head of Retail | (until 18 April 2019) |
| Ms | Maree McAuley | People & Performance Leader | (until 27 March 2019) |
| Ms | Anna Peshanoff | Acting Head of Retail | (from 23 April 2019) |

**(c) Key management personnel compensation**

The compensation of key management personnel for the years ended 30 June 2019 and 2018 included in Employee benefits expenses (see note 6) is as follows:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 1 325 | 1 380 |
| Long-term employee benefits (long service leave) | 57 | 36 |
| Long-term employee benefits (amounts paid to superannuation plans) | 122 | 129 |
| **Total** | **1 504** | **1 545** |

**(d) Remuneration of governing board members**

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

| | 2019 No. | 2018 No. |
|---|---|---|
| $0 - $19 999 | - | - |
| $20 000 - $39 999 | 4 | 4 |
| $40 000 - $59 999 | 3 | 3 |
| **Total number of governing board members** | **7** | **7** |

The total remuneration received and receivable by those governing board members was $0.29 million ($0.28 million, 2017-18) which includes fringe benefits and superannuation contributions.

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

Apart from the details disclosed in this note, in accordance with the Premier and Cabinet Circular No. 016, SA Government employees did not receive any remuneration for governing board duties during the financial year.

## NOTE 9 Government guarantee fee

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Government guarantee fee paid or payable | 29 727 | 28 605 |
| **Total government guarantee fee paid or payable** | **29 727** | **28 605** |

The guarantee fee calculation methodology was revised effective from 1 July 2016. In line with the new Government Guarantee Fee Pricing Policy, 1.6% rate applies to legacy debt instruments existing as at 1 July 2016 until their maturity. A guarantee fee rate of 1.56% applies to new debt instruments undertaken during the 2016-17 financial year until their maturity. A guarantee fee rate of 1.88% applies to new debt instruments undertaken from 1 July 2017 to 22 April 2018 and 1.36% applies from 23 April 2018 until their maturity.

## NOTE 10 Bad and impaired loans expense

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Bad and impaired loans expense | 19 | 70 |
| Increase in provision for impairment | 1 451 | 2 283 |
| **Total bad and impaired loans expense** | **1 470** | **2 353** |

## NOTE 11 Depreciation and amortisation expense

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Other office and computer equipment | 220 | 244 |
| Leasehold improvements | 315 | 313 |
| Intangible assets | 643 | 668 |
| **Total depreciation and amortisation expense** | **1 178** | **1 225** |

## NOTE 12 Other expenses

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| External auditor’s remuneration | 158 | 129 |
| Insurance | 140 | 111 |
| Unrealised loss in fair value of loans at FVTPL | 494 | - |
| Office accommodation | 841 | 830 |
| Marketing, product development and advertising | 1 711 | 1 800 |
| Internal audit fees | 155 | 184 |
| Loan administration | 196 | 203 |
| Information technology | 971 | 1 274 |
| Consultants’ fees | 60 | 126 |
| Human resources and staff development | 506 | 493 |
| Other | 3 051 | 1 976 |
| **Total other expenses** | **8 283** | **7 126** |

Total other expenses amount disclosed includes GST amounts non-recoverable from the ATO.

| **The number and dollar amount of consultancies paid/payable (included in "Other expenses") that fell within the following bands:** | **NO.** | **2019<br>$'000** | **NO.** | **2018<br>$'000** |
|---|---|---|---|---|
| Below $10 000 | 2 | 12 | 3 | 20 |
| $10 000 or above | 2 | 48 | 2 | 106 |
| **Total paid/payable to the consultants engaged** | **4** | **60** | **5** | **126** |

## NOTE 13 Auditor's remuneration

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Audit fees paid/payable to the Auditor-General’s Department relating to work performed under the Public Finance and Audit Act | 158 | 129 |
| **Total audit fees** | **158** | **129** |

The amounts disclosed above are inclusive of GST given HomeStart is input-taxed for GST purposes and is not entitled to recover GST.

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

Auditor's remuneration is included in 'Other expenses' in the Statement of Comprehensive Income.

## NOTE 14 Financial investments

| **14.1 Financial investments** | **2019<br>$'000** | **2018<br>$'000** |
|---|---|---|
| SAFA Cash Management Fund (Wyatt) | 962 | 989 |
| **Total financial investments** | **962** | **989** |

### 14.2 Maturity profile of HomeStart's financial investments

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| At call | 962 | 989 |
| Not longer than three months | - | - |
| Longer than three months and not longer than twelve months | - | - |
| Longer than five years | - | - |
| **Total financial investments** | **962** | **989** |

### 14.3 Risk exposure

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

## NOTE 15 Loans and advances

| 15 Loans and advances | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Loans and advances at amortised cost | 2 078 577 | 2 011 487 |
| Loans and advances at FVTPL | 129 538 | 54 361 |
| **Loans and advances** | **2 208 115** | **2 065 848** |

| 15.1 Loans and advances at amortised cost | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Primary loans | 2 004 490 | 1 938 542 |
| Subsidised loans | 113 041 | 110 237 |
| **Gross loans and advances** | **2 117 531** | **2 048 779** |
| Fair value adjustment | ( 10 639) | ( 11 018) |
| Deferred loan fee income | ( 11 288) | ( 9 789) |
| Deferred loan fee expense | 3 732 | 3 199 |
| Unearned income on impaired loans | ( 2 170) | ( 2 213) |
| Provision for credit impairment | ( 18 589) | ( 17 471) |
| **Net loans and advances** | **2 078 577** | **2 011 487** |

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Stage 3 Specific provision - Lifetime Expected Credit Losses (ECL)** | **( 8 230)** | **( 7 501)** |
| Stage 3 Collective provision - Lifetime ECL | ( 658) | - |
| Stage 2 Collective provision - Lifetime ECL | ( 5 538) | - |
| Stage 1 Collective provision - 12-months ECL | ( 4 163) | - |
| **Total collective provision for impaired loans** | **( 10 359)** | **( 9 970)** |
| **Total provision for credit impairment** | **( 18 589)** | **( 17 471)** |

The opening balance for the collective provision for impaired loans measured under AASB 139 is now presented as 12-months and lifetime expected credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to note 3.1 for information on the adoption of AASB 9.

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 Collective Provision 12-months ECL | Stage 2 Collective Provision Lifetime ECL not credit impaired | Stage 3 Collective Provision Lifetime ECL credit impaired | Collective Provision [1] | Stage 3 Specific provision Lifetime ECL credit impaired | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at beginning of year | - | - | - | 9 970 | 7 501 | 17 471 |
| Restated on initial application of AASB 9 | 3 427 | 7 331 | 360 | ( 9 970) | - | 1 148 |
| Changes due to financial assets recognised in the opening balance that have: | | | | | | |
| -Transferred to 12-months ECL - collective provision | 3 574 | ( 3 537) | ( 37) | - | - | - |
| -Transferred to Lifetime ECL not credit impaired - collective provision | ( 164) | 237 | ( 73) | - | - | - |
| -Transferred to Lifetime ECL credit impaired - collective provision | ( 7) | ( 41) | 48 | - | - | - |
| -Transferred to Lifetime ECL credit impaired - specific provision | ( 46) | ( 206) | ( 45) | - | 297 | - |
| New and increased provisions (net of releases) | ( 2 621) | 1 754 | 405 | - | 4 157 | 3 695 |
| Write-backs of specific provisions | - | - | - | - | ( 2 244) | ( 2 244) |
| Write-offs from specific provisions | - | - | - | - | ( 1 481) | ( 1 481) |
| **Balance at end of year** | **4 163** | **5 538** | **658** | **-** | **8 230** | **18 589** |

[1] The opening balance for the collective provision for impaired loans measured under AASB 139 is now presented as 12-months and Lifetime credit losses following the adoption of AASB 9, with no restatement to prior period comparatives. Refer to note 3.1 for information on the adoption of AASB 9.

**Impact of movements in gross carrying amount on provision for expected credit losses**

Provision for credit impairment reflects expected credit losses (ECL) measured using the three-stage approach under AASB 9, as described in Note 2.5.3.1. The following explains how significant changes in the gross carrying amount of loans and advances during the 2019 financial year have contributed to the changes in the provision for credit impairment for HomeStart under the expected credit loss model.

Overall, the total provision for credit impairment decreased by $0.030 million compared to the balance at the beginning of the year which was restated under AASB 9. This net decrease was driven by decreased collective provisioning for credit impaired assets by $0.759 million, partially offset by a increase in specific provisioning by $0.729 million.

Specific provisions increased by $0.729 million compared to the balance at the beginning of the year, primarily due to a higher level of newly impaired assets.

Collective provisions decreased by $0.759 million compared to the balance at the beginning of the year, comprised of:
Collective provision 12-months ECL (Stage 1) - increased by $0.736 million as a result of:

- $452.2 million of loans and advances that were newly originated or migrated into Stage 1 from Stage 2 or Stage 3 due to credit quality improvements combined with collective provision charges for model enhancements to incorporate a more forward looking approach.

- Partially offset by $89.6 million of loans and advances that were repaid experienced movement in underlying account balances during the period or migrated from Stage 1 to Stage 2 or 3 due to deterioration in credit quality.

Collective provision Lifetime ECL - not credit impaired (Stage 2) - decreased by $1.793 million as a result of:

- $221.1 million of loans and advances exiting Stage 2 due to repayment, migrating to Stage 1 as a result of improved credit quality or migrating to Stage 3 due to deterioration in credit quality.

- Partially offset by $71.6 million in existing loans and advances migrating into Stage 2 as a result of transfer of loans and advances from Stage 1 or Stage 3.

- $38.7 million of loans and advances that were newly originated, combined with collective provision charges for model enhancements to incorporate a more forward looking approach and other methodology changes.

Collective provision Lifetime ECL - credit impaired (Stage 3) - increased by $0.298 million as a result of:

- $4.8 million of existing loans and advances that experienced movement in balance during the year or were transferred into Stage 3 from Stage 1 and Stage 2 due to credit quality deterioration.

- Partially offset by $2.2 million of loans and advances that were repaid, migrated to Stage 1 or Stage 2 due to credit quality improvements or migrated to individually credit assessed with specific provisions raised.

For comparison to 2017-18 provisions were disclosed as follows:

| | 2018 |
|---|---|
| **Specific provision for impaired loans** | **$'000** |
| Balance at beginning of year | 8 992 |
| Bad debts written-off | ( 2 992) |
| Impairment expense | 1 501 |
| **Balance at end of year** | **7 501** |
| | |
| **Collective provision for impairment** | |
| Balance at beginning of year | 9 188 |
| Impairment expense | 782 |
| **Balance at end of year** | **9 970** |
| **Total provision for impairment** | **17 471** |

### 15.2 Risk exposure

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

| **15.3 Loans and advances at fair value through profit or loss** | **2019** | **2018** |
|---|---|---|
| | **$'000** | **$'000** |
| Breakthrough Loan (shared appreciation component) | 48 954 | 54 226 |
| Shared Equity Option Loan (shared appreciation component) | 3 677 | 135 |
| Seniors Equity Loan | 76 907 | - |
| **Total loans and advances at fair value through profit or loss** | **129 538** | **54 361** |

| 15.4 | Maturity profile of HomeStart's loans and advances at fair value through profit or loss | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| At call | | - | - |
| Not longer than three months | | - | - |
| Longer than three months and not longer than twelve months | | - | - |
| Longer than five years | | 129 538 | 54 361 |
| **Total loans and advances at fair value through profit or loss** | | **129 538** | **54 361** |

**15.5 Risk exposure**

Information in relation to HomeStart's exposure to property price and interest rate risk is provided in note 31.4.4 and 31.4.5.

## NOTE 16 Other financial assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Accrued interest on housing loans and advances | 407 | 394 |
| EquityStart grant receivable | 96 | 86 |
| GST recoverable | 31 | 36 |
| Other | 146 | 146 |
| **Total other financial assets** | **680** | **662** |

## NOTE 17 Intangible assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Software at cost | 9 284 | 7 344 |
| Accumulated amortisation | ( 4 911) | ( 4 268) |
| **Total software** | **4 373** | **3 076** |
| | | |
| **Carrying amount at 1 July** | **3 076** | **3 709** |
| Additions | 1 940 | 35 |
| Amortisation | ( 643) | ( 668) |
| **Carrying amount at 30 June** | **4 373** | **3 076** |

The majority of intangible assets were acquired externally directly from software suppliers or through contract arrangements. There were no indications of impairment of intangible assets at 30 June 2019.

## NOTE 18 Property, plant and equipment

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Leasehold improvements** | | |
| Leasehold improvements at cost (deemed fair value) | 3 143 | 3 143 |
| Accumulated depreciation | ( 1 231) | ( 916) |
| **Total leasehold improvements** | **1 912** | **2 227** |
| | | |
| **Other office and computer equipment** | | |
| Other office and computer equipment at cost (deemed fair value) | 2 613 | 2 763 |
| Accumulated depreciation | ( 1 917) | ( 2 241) |
| **Total other office and computer equipment** | **696** | **522** |
| **Total property, plant and equipment** | **2 608** | **2 749** |

**Reconciliation of Property, Plant and Equipment**

The following table shows the movement of property, plant and equipment during the year:

| | Leasehold improvements $'000 | Other office and computer equipment $'000 | Total $'000 |
|---|---|---|---|
| **Carrying amount at 30 June 2017** | **2 520** | **552** | **3 072** |
| Additions – at cost (deemed fair value) | 20 | 214 | 234 |
| Depreciation and amortisation | ( 313) | ( 244) | ( 557) |
| **Carrying amount at 30 June 2018** | **2 227** | **522** | **2 749** |
| Additions – at cost (deemed fair value) | - | 399 | 399 |
| Disposals – at cost (deemed fair value) | - | ( 549) | ( 549) |
| Disposals – accumulated depreciation | - | 544 | 544 |
| Depreciation and amortisation | ( 315) | ( 220) | ( 535) |
| **Carrying amount at 30 June 2019** | **1 912** | **696** | **2 608** |

All items of property, plant and equipment that had a fair value at the time of acquisition less than $1.5 million ($1.0 million, 2017-18) and had an estimated useful life less than three years, has not been revalued in accordance with Accounting Policy Statement 116.D. The carrying value of these items are deemed to approximate fair value.

## NOTE 19 Other assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Prepayments | 447 | 480 |
| **Total other assets** | **447** | **480** |

## NOTE 20 Fair value measurement of non-financial assets

**Fair value hierarchy**

In determining fair value, HomeStart has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset), and the asset's highest and best use (that is physically possible, legally permissible, financially feasible).

HomeStart's current use is the highest and best use of the asset unless other factors suggest an alternative is feasible. As HomeStart did not identify any factors to suggest an alternative use, fair value measurement was based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than $1.5 million ($1.0 million, 2017-18) and had an estimated useful life less than three years, are deemed to approximate fair value.

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. HomeStart categorises non-financial assets measured at fair value into the fair value hierarchy based on the level of inputs used in measurement as follows:

**Fair value measurements at 30 June 2019**

| Recurring fair value measurements | 2019 $'000 | Level 3 $'000 |
|---|---|---|
| Leasehold improvements | 1 912 | 1 912 |
| Other office and computer equipment | 696 | 696 |
| **Total recurring fair value measurements** | **2 608** | **2 608** |

**Fair value measurements at 30 June 2018**

| Recurring fair value measurements | 2018 $'000 | Level 3 $'000 |
|---|---|---|
| Leasehold improvements | 2 227 | 2 227 |
| Other office and computer equipment | 522 | 522 |
| **Total recurring fair value measurements** | **2 749** | **2 749** |

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2019 and 2018, HomeStart had no non-financial asset valuations categorised into level 1 and 2.

**Valuation techniques and inputs**

Unobservable inputs were used in determining fair value, refer to note 18, and they are subjective. HomeStart considers that the overall valuation would not be materially affected by changes to the existing assumptions. There were no changes in valuation techniques during 2019 and 2018. The following table is a reconciliation of fair value measurements using significant unobservable input (level 3).

**Reconciliation of Level 3 recurring fair value measurements as at 30 June 2019**

| | Property, plant and equipment $'000 |
|---|---|
| **Opening balance at the beginning of the period** | **2 749** |
| Acquisitions | 399 |
| Disposals | ( 5) |
| Depreciation | ( 535) |
| **Carrying amount at the end of the period** | **2 608** |

**Reconciliation of Level 3 recurring fair value measurements as at 30 June 2018**

| | Property, plant and equipment $'000 |
|---|---|
| **Opening balance at the beginning of the period** | **3 072** |
| Acquisitions | 234 |
| Depreciation | ( 557) |
| **Carrying amount at the end of the period** | **2 749** |

## NOTE 21 Payables

| 21.1 Payables | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Creditors | 656 | 151 |
| Accrued administration expenses | 597 | 294 |
| Employment on-costs* | 370 | 339 |
| Accrued interest payable on borrowings | 1 330 | 1 751 |
| Accrued interest payable on derivatives | 92 | 70 |
| Accrued guarantee fee payable | 1 205 | 1 209 |
| Accrued loan manager fees | 379 | 397 |
| **Total payables** | **4 629** | **4 211** |

*Employment on-costs include payroll tax and superannuation contributions and are settled when the respective employee benefits that they relate to is discharged.

HomeStart makes contribution to SA 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 respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to the South Australian Superannuation Board and other externally managed superannuation schemes.

### 21.2 Interest rate and credit risk

Creditors and accruals are raised for all amounts billed but unpaid. Creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefit that they relate to is discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand. All payables will be settled within twelve months of the reporting date.

## NOTE 22 Borrowings

| 22.1 Interest bearing liabilities | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Short-term borrowings payable** | | |
| Short-term borrowings | 768 430 | 250 797 |
| **Total short-term borrowings payable** | **768 430** | **250 797** |
| | | |
| **Long-term borrowings payable** | | |
| Long-term borrowings | 1 272 000 | 1 647 000 |
| **Total long-term borrowings payable** | **1 272 000** | **1 647 000** |
| **Total interest bearing liabilities** | **2 040 430** | **1 897 797** |

All HomeStart borrowings are unsecured.

### 22.2 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 31.3 and 31.4.2 respectively.

## NOTE 23 Employee benefits

| 23.1 Employee benefits | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Accrued salaries | 198 | 178 |
| Annual leave | 530 | 590 |
| Long service leave | 1 509 | 1 565 |
| **Total employee benefits** | **2 237** | **2 333** |

### 23.2 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service.

Accounting Policy Statements requires the use of the yield on long-term Commonwealth or State Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term corporate bonds has decreased from 2018 (2.5%) to 2019 (1.25%).

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

The net financial effect of the changes to actuarial assumptions in the current financial year is an increase in the long service leave liability of $157,237 and employee benefits expense of $180,697. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions – including the long-term discount rate.

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

### 23.3 Settlement period of long service leave

HomeStart's 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.

## NOTE 24 Provisions

| 24.1 Provision for income tax | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Income tax equivalent payable | 3 857 | 2 907 |
| **Total tax equivalent payable** | **3 857** | **2 907** |

| 24.2 Provision for dividend | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Dividend payable | 1 694 | 212 |
| **Total dividend payable** | **1 694** | **212** |

Pursuant to Section 26 of the *Urban Renewal Act 1995,* HomeStart must recommend to the Minister for Transport, Infrastructure and Local Government, that it pays 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.

Dividends paid and payable have been specifically determined and approved in consultation with the Treasurer and HomeStart's Minister.

For the financial year ended 30 June 2019, the Board of HomeStart recommended the payment of a dividend of 100% of after tax profit (60%, 2017-18). Based on the forecast profit, this amounted to a total dividend of $14.6 million in respect of the year ended 30 June 2019 ($7.7 million, 2017-18). The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2019.

The actual dividend based on the payout ratio of 100% of actual after tax profit was $16.3 million. HomeStart paid a dividend amount of $14.6 million to the Department of Treasury and Finance prior to the end of the financial year ($7.7 million, 2017-18). The amount of dividend payable of $1.7 million is disclosed in note 24 as Provision for dividend. HomeStart will pay this residual dividend amount of $1.7 million in respect of the financial year ended 30 June 2019 in June 2020 ($0.2 million, 2017-18).

HomeStart also paid an interim dividend of $9.966 million to the Department of Treasury and Finance prior to the end of 2017-18 financial year. This was a one off interim dividend approved by the Minister in June 2018, following recommendation from the HomeStart Board in February 2018.

## NOTE 25 Other liabilities

| **25.1 Other liabilities** | **2019** | **2018** |
|---|---|---|
| | **$'000** | **$'000** |
| Unearned income (EquityStart grant) | - | 776 |
| Workers compensation provision* | 41 | 61 |
| Wyatt Benevolent Institution | 2 331 | 2 314 |
| Operating lease liability | 1 288 | 1 406 |
| Make good provision | 400 | 400 |
| City of Salisbury | 4 | 4 |
| **Total other liabilities** | **4 064** | **4 961** |

*A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office for Public Sector (a division of the Department of the Premier and Cabinet). The provision is for the estimated cost of ongoing payments to employees as required under current legislation. HomeStart is responsible for the payment of workers compensation claims.

| **25.2 Unearned income (EquityStart grant)** | **2019** | **2018** |
|---|---|---|
| | **$'000** | **$'000** |
| **Opening balance** | **776** | **774** |
| Amounts received/receivable | 567 | 704 |
| Amount recognised as earned | ( 1 343) | ( 702) |
| **Closing balance** | **-** | **776** |

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

| 25.3 Make good provision | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| **Opening balance** | **400** | **400** |
| **Closing balance** | **400** | **400** |

## NOTE 26 Equity

**General reserve for credit losses**

A general reserve for credit losses was created within equity. 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 or loss.

**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 remains in equity until the forecast transaction affects the profit or loss. If the forecast transaction is no longer expected to occur, it is reclassified to the profit or loss as a reclassification adjustment.

## NOTE 27 Unrecognised contractual commitments

### 27.1 Capital commitments

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

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | 30 | - |
| **Total capital commitments** | **30** | **-** |

Capital expenditure commitments are for upgrades of operational systems.

### 27.2 Expenditure commitments - 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:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Within one year | 454 | 592 |
| Later than one year but not longer than five years | 14 | 468 |
| **Total expenditure commitments** | **468** | **1 060** |

HomeStart’s software licence commitments in 2019 and 2018 are in relation to the Front End Loan System, Microsoft software suite and the compliance risk management system.

### 27.3 Operating leases commitments

Commitments under cancellable and non-cancellable operating leases contracted at the reporting date but not recognised as liabilities are payable as follows:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Within one year | 981 | 932 |
| Later than one year but not longer than five years | 3 773 | 3 755 |
| Later than five years | 1 007 | 2 036 |
| **Total operating lease commitments** | **5 761** | **6 723** |
| Representing: | | |
| Non-cancellable operating leases | 5 761 | 6 723 |
| **Total operating lease commitments** | **5 761** | **6 723** |

HomeStart's operating leases are for office accommodation and motor vehicles. The offices leases are non-cancellable with terms ranging up to 10 years with all leases having the right of renewal. Rent is payable monthly in advance. The motor vehicle leases are non-cancellable with terms of 3 years.

The total amount of rental expense for minimum lease payments for the financial year is disclosed in note 12.

### 27.4 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 $70.1 million ($79.2 million, 2017-18).

Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements. Nevertheless, credit-related commitments are considered "at call" for liquidity management purposes.

The redraw facilities at balance date amount to $66.6 million ($64.8 million, 2017-18).

## NOTE 28 Contingent assets and liabilities

HomeStart is not aware of any material contingent assets or liabilities that exist at the reporting date.

## NOTE 29 Related parties

HomeStart is controlled by the SA Government.

Related parties of HomeStart include all key management personnel and their close family members and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.
Other related party disclosures are included in note 8 Key management personnel.

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

During the financial year HomeStart undertook transactions with the following related parties:

- employees who are key management personnel
- board members
- Department of Human Services
- Department of Planning, Transport and Infrastructure
- Department of Treasury and Finance
- South Australian Government Financing Authority (SAFA).

The nature and amounts of these transactions have been disclosed throughout the financial statements.

## NOTE 30 Cash flow reconciliation

### 30.1 Reconciliation of cash and cash equivalents - cash at the end of the reporting period:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Cash and Cash equivalents disclosed in the Statement of Financial Position | 3 145 | 3 184 |
| **Balance as per Statement of Cash Flows** | 3 145 | 3 184 |

### 30.2 Reconciliation of profit for the year to net cash provided by operating activities

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Profit for the year** | **16 301** | **13 211** |
| **Add/less non cash items** | | |
| Depreciation and amortisation expense of non-financial assets | 1 178 | 1 225 |
| Unrealised change in fair value of loans | 494 | ( 356) |
| Bad debts written-off | 1 499 | 3 062 |
| Fees applied directly to loan accounts | ( 5 369) | ( 5 570) |
| **Movement in assets and liabilities** | | |
| (Decrease) increase in provision for impairment | ( 30) | ( 709) |
| (Decrease) increase in deferred loan fee income | 1 499 | 1 867 |
| (Increase) decrease in deferred loan fee expense | ( 533) | ( 656) |
| (Decrease) increase in fair value adjustment | ( 379) | ( 553) |
| (Decrease) increase in payables | ( 116) | ( 161) |
| (Decrease) increase in provision for employee benefits | ( 96) | ( 12) |
| (Decrease) increase in other liabilities | ( 776) | 2 |
| (Decrease) increase in income tax equivalents payable | 950 | ( 572) |
| (Increase) decrease in financial and other assets | ( 18) | ( 42) |
| **Net cash provided by operating activities** | **14 604** | **10 736** |

### 30.3 Reconciliation of liabilities arising from financing activities to financing cash flows

| | Liabilities | | | Equity | |
|---|---|---|---|---|---|
| | Short-term borrowings $'000 | Long-term borrowings $'000 | Provision for Dividend $'000 | Retained Earnings $'000 | Total $'000 |
| **Opening balance at 1 July 2017** | **82 725** | **1 647 000** | **1 423** | **160 914** | **1 892 062** |
| **Changes from financing cash flows** | | | | | |
| Proceeds from borrowings | 168 072 | 300 000 | - | - | 468 072 |
| Dividends paid to SA Government | - | - | ( 1 211) | ( 17 893) | ( 19 104) |
| Repayment of borrowings | - | ( 300 000) | - | - | ( 300 000) |
| **Total changes from financing cash flows** | **168 072** | **-** | **( 1 211)** | **( 17 893)** | **148 968** |
| Total equity-related other changes | - | - | - | 13 462 | 13 462 |
| **Closing balance at 30 June 2018** | **250 797** | **1 647 000** | **212** | **156 483** | **2 054 492** |
| **Opening balance at 30 June 2018** | **250 797** | **1 647 000** | **212** | **156 483** | **2 054 492** |
| Opening retained earnings adjustment | - | - | - | ( 1 148) | ( 1 148) |
| **Opening balance at 1 July 2018** | **250 797** | **1 647 000** | **212** | **155 335** | **2 053 344** |

| | | | | | |
|---|---|---|---|---|---|
| **Changes from financing cash flows** | | | | | |
| Proceeds from borrowings | - | 200 000 | - | - | 200 000 |
| Dividends paid to SA Government | - | - | 1 482 | ( 16 301) | ( 14 819) |
| Repayment of borrowings | ( 57 367) | - | - | - | ( 57 367) |
| Reclassification from long term to short term | 575 000 | ( 575 000) | - | - | - |
| **Total changes from financing cash flows** | **517 633** | **( 375 000)** | **1 482** | **( 16 301)** | **127 814** |
| Total equity-related other changes | - | - | - | 17 079 | 17 079 |
| **Closing balance at 30 June 2019** | **768 430** | **1 272 000** | **1 694** | **156 113** | **2 198 237** |

## NOTE 31 Financial risk management

### 31.1 Overview

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

- credit risk
- liquidity risk
- 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 directors 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. In addition, a Board Credit Sub-Committee has been formed to review and recommend approval of individual loan applications which will result in an aggregate exposure to the borrower that exceeds $1.5 million.

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 Finance department which identify, evaluate and, when feasible and appropriate, hedge 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.

HomeStart's Board of directors has delegated to the Audit Committee the responsibility 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, liquidity risk and credit risk.

In accordance with the best practice APRA framework, the Board Credit Sub-Committee review individual loan applications where the resulting aggregate exposure of the borrower will exceed $1.5 million and individual loan applications greater than $1.5 million, and where appropriate, will recommend the loan to the Minister or the Cabinet.

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

**31.2 Credit risk**

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

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

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

***31.2.1 Loans and advances***

(a) *Credit risk management*

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

HomeStart's credit risk management processes are overseen by the Board, Audit Committee and ALCO.

The authority to make credit decisions in accordance with 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 compliance 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 policy is to not undertake 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 enforced 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's annual property data or a current formal valuation. As at year-end, the fair value of collateral for past due and impaired loans was:

| | 2019 | 2018 |
|---|---|---|
| **Past due but not specifically impaired** | **$'000** | **$'000** |
| Gross carrying value | 81 941 | 64 269 |
| Fair value of collateral | 127 023 | 101 133 |
| | | |
| **Specifically Impaired** | | |
| Gross carrying value, before specific provision for impairment | 46 659 | 46 106 |
| Unearned income on impaired loans | ( 2 170) | ( 2 213) |
| Lifetime ECL credit impaired - specific provision | ( 8 230) | ( 7 501) |
| **Net loans and advances under specific provision** | **36 259** | **36 392** |
| Fair value of collateral | 49 996 | 49 887 |

Concentration of counterparty and geographic risk

HomeStart is not materially exposed to any individual customer. HomeStart is restricted under the *Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* to only lend in South Australia and is therefore exposed to the property market in this state.

Approximately 22% (22%, 2017-18) 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, 33% (33%, 2017-18) 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 is consistent with the impairment allowances required by AASB 9 based on expected losses at the reporting date (note 2.5.3 and note 15).

HomeStart measures its Breakthrough and Shared Equity Option Loans as being at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough and Shared Equity Option Loans are 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 $2 078.6 million ($2 011.5 million, 2017-18).

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 which are measured at amortised cost. Further analysis by risk grading is also provided.

| | 2019 | | | | | 2018 |
|---|---|---|---|---|---|---|
| | **Stage 1 Collective Provision 12-months ECL** | **Stage 2 Collective Provision Lifetime ECL not credit impaired** | **Stage 3 Collective Provision Lifetime ECL credit impaired** | **Stage 3 Specific provision Lifetime ECL credit impaired** | **Total** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Low risk | 1 317 176 | 148 277 | 3 198 | 19 509 | 1 488 160 | 1 391 661 |
| Moderate risk | 383 094 | 131 697 | 2 000 | 16 477 | 533 268 | 543 821 |
| High risk | 50 946 | 33 287 | 1 093 | 10 777 | 96 103 | 113 297 |
| **Gross loans and advances** | **1 751 216** | **313 261** | **6 291** | **46 763** | **2 117 531** | **2 048 779** |
| Fair value adjustment | | | | | ( 10 639) | ( 11 018) |
| Deferred loan fee income | | | | | ( 11 288) | ( 9 789) |
| Deferred loan fee expense | | | | | 3 732 | 3 199 |
| Unearned income on impaired loans | | | | | ( 2 170) | ( 2 213) |
| Provision for credit impairment | | | | | ( 18 589) | ( 17 471) |
| **Net loans and advances** | | | | | **2 078 577** | **2 011 487** |

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

| | **2019** | **2018** |
|---|---|---|
| | **$'000** | **$'000** |
| <30 days | 63 675 | 47 772 |
| 30 – 59 days | 9 058 | 9 990 |
| 60 – 89 days | 2 909 | 2 007 |
| 90 – 179 days | 4 240 | 2 481 |
| >179 days | 2 059 | 2 019 |
| **Total** | **81 941** | **64 269** |

**(1) Loans and advances renegotiated**

HomeStart's 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 reviewed periodically. Also, HomeStart may reduce the required loan repayment for reasons relating to financial difficulties of a customer provided the projected loan term is within the normal lending criteria.

The gross carrying amount of loans that have been renegotiated under these criteria within the last 12 months that may otherwise be past due or impaired totalled $4.8 million as at 30 June 2019 ($5.4 million, 2017-18).

**(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.

The contractual amount outstanding on loans and advances that have been written off, but were still subject to enforcement activity was $2.1 million as at 30 June 2019 ($1.2 million, 2017-18).

**31.2.2 *Derivative financial liabilities***

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

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

(b) *Maximum exposure to credit risk*

As at 30 June 2019 and 30 June 2018, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Derivative financial instruments** | **( 4 202)** | **( 2 377)** |
| Swap income receivable | 108 | 175 |
| Swap expense payable | ( 200) | ( 245) |
| **Net payable (note 21.1)** | **( 92)** | **( 70)** |

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

### 31.3 Liquidity risk

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

#### 31.3.1 Liquidity risk management

Risks relating to liquidity are governed by a range of treasury management policies, which are subject to oversight by ALCO.

HomeStart's liquidity management process is carried out and monitored by HomeStart's internal Finance 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
- 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 holds a positive balance in its operating bank account. HomeStart's internal policy requires maintaining daily cash at an agreed target balance.

#### 31.3.2 Funding approach

HomeStart is required to use SAFA as its sole counterparty for all funding transactions. The arrangement gives HomeStart access to a significant volume of liquidity, restricted by an approved borrowing limit of $2 197 million as at 30 June 2019 ($2 105 million, 2017-18).

#### 31.3.3 Exposure to liquidity risk

(a) *Non-derivative cash flows*

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt, subject to refinancing in the next 12 month period, is to be limited to 40% (40%, 2017-18) of total debt outstanding.

| **% of debt subject to refinancing in the next 12 month period** | **2019** | **2018** |
|---|---|---|
| | **%** | **%** |
| At 30 June | 37.70 | 13.20 |
| Average for the period | 32.80 | 15.50 |
| Maximum for the period | 46.10 | 27.20 |
| Minimum for the period | 13.80 | 5.00 |

Temporary ALCO approval was granted in February 2019 to exceed the 40% internal short term funding limit until the debt was restructured in June 2019.

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

| 2019 | 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 | 4 629 | - | - | - | - | 4 629 | **4 629** |
| Borrowings | 198 171 | 308 965 | 306 530 | 1 237 681 | 100 260 | 2 151 607 | **2 040 430** |
| Other financial liabilities | - | 1 929 | 3 622 | - | - | 5 551 | **5 551** |
| **Total liabilities (contractual maturity dates)** | **202 800** | **310 894** | **310 152** | **1 237 681** | **100 260** | **2 161 787** | **2 050 610** |

| 2018 | 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 | 4 211 | - | - | - | - | 4 211 | **4 211** |
| Borrowings | 256 020 | 10 564 | 45 703 | 1 767 293 | - | 2 079 580 | **1 897 797** |
| Other financial liabilities | - | 1 454 | 1 665 | - | - | 3 119 | **3 119** |
| **Total liabilities (contractual maturity dates)** | **260 231** | **12 018** | **47 368** | **1 767 293** | **-** | **2 086 910** | **1 905 127** |

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

(b) *Derivative cash flows*

Derivatives are used by HomeStart to hedge risk include interest rate swaps.

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 | Carrying value $'000 |
|---|---|---|---|---|---|---|---|
| **2019** | ( 192) | ( 386) | ( 1 376) | ( 2 245) | ( 260) | ( 4 459) | ( 4 202) |
| **2018** | ( 107) | ( 242) | ( 968) | ( 1 394) | ( 29) | ( 2 740) | ( 2 377) |

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

(c) *Off balance sheet*

The periods of payment of unrecognised contractual commitments are disclosed in note 27.

### 31.4 Market risk

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

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

### 31.4.1 Market risk management

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

A comprehensive Treasury Policy sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings and by the Finance department on a daily basis.

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

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

### 31.4.2 Interest rate risk

(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.

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 2019, HomeStart had floating/fixed swaps with a notional value of $245.5 million ($255.5 million, 2017-18) with fixed rates varying between 0.96% and 6.12% (1.49% and 6.96%, 2017-18).

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

(b) *Market rate risk*

HomeStart management monitor interest rate risk on a weekly basis. The monitoring includes:

- reviewing and comparing the level of maturity of interest rate swaps and the underlying fixed rate loan transactions
- identifying the level of unhedged portfolio generated through additional lending activity, fixed rate loan expiry and interest rate loan expiry
- reviewing interest rate swaps expiries and entering into further interest rate swaps arrangements to cover the mismatch in cash flows.

ALCO monitor this process on a monthly basis.

(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, enabling the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Statement of Comprehensive Income when HomeStart designates the instrument into a hedge relationship and satisfies the 'hedge accounting' requirements contained in AASB 9 *Financial Instruments* .

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Statement of Comprehensive Income immediately. In the year ended 30 June 2019, a $1.8 million loss ($1.5 million gain, 2017-18) was recognised in equity during the period.

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

### 31.4.3 Investments price risk

(a) *Risk control and mitigation policies*

HomeStart is exposed to investment price risk arising from investments held by HomeStart and classified in the Statement of Financial Position at amortised cost.

(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 14).

(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.

| **2019** | **Carrying amount $'000** | **-10%** | **10%** |
|---|---|---|---|
| SAFA Cash Management Fund (Wyatt) | 962 | ( 96) | 96 |
| **Total increase/(decrease) in profit before tax and equity** | **962** | **( 96)** | **96** |

| **2018** | **Carrying amount $'000** | **-10%** | **10%** |
|---|---|---|---|
| SAFA Cash Management Fund (Wyatt) | 989 | ( 99) | 99 |
| **Total increase/(decrease) in profit before tax and equity** | **989** | **( 99)** | **99** |

### 31.4.4 Breakthrough and Shared Equity Option 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 and Shared Equity Option 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 2.5.3.2).

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

To manage its price risk associated with the no negative equity guarantee component within the Seniors Equity loans, HomeStart sets a very low loan to value ratio (LVR).

(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 15.3).

(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 and Shared Equity Option 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.

| | **2019 Carrying amount $'000** | **-5%** | **5%** | **2018 Carrying amount $'000** | **-5%** | **5%** |
|---|---|---|---|---|---|---|
| Breakthrough Loan | 48 954 | ( 3 028) | 3 168 | 54 226 | ( 3 356) | 3 525 |
| Shared Equity Option Loan | 3 677 | ( 207) | 160 | 135 | ( 2) | 21 |
| **Total increase/(decrease) in profit before tax and equity** | | **( 3 235)** | **3 328** | | **( 3 358)** | **3 546** |

### 31.4.5 Seniors Equity loans property price risk and interest rate risk

(a) *Risk controls and mitigation policies*

HomeStart is exposed to property price and interest rate risk arising from the Seniors Equity loans made to customers that are measured at fair value through profit or loss, due to the no negative equity guarantee component of this loan. The fair value of these loans is determined based on actuarial valuation by applying assumptions around mortality, property value and interest rates at balance date and throughout the life of the loan (note 2.5.3.2).

To manage the property price and interest rate risk associated with the no negative equity guarantee component of the Seniors Equity loans, HomeStart sets a very low loan to valuation ratio (LVR) at the origination of the loan.

(b) *Maximum exposure to property price risk and interest rate risk*

HomeStart's maximum exposure to property price risk and interest rate risk has been recognised as the carrying amount at balance date (note 15.3).

(c) *Sensitivity analysis*

The fair value of Seniors Equity loans is most sensitive to the expected property prices and interest rates over the life of the loan. For the year ended 30 June 2019, the profit before tax and equity are not expected to materially change as a result of a reasonably possible change in property prices and interest rates.

### 31.4.6 Currency risk

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

## NOTE 32 Fair value and categorisation of financial instruments

### 32.1 Fair value and categorisation of financial instruments

The fair value of assets or liabilities traded in active markets are based on quoted market prices for identical assets or liabilities at balance date. The fair value of other financial assets or liabilities is determined using valuation techniques. These techniques maximise the use of observable market data where it is available. HomeStart uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

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.

| | Category | 2019 Carrying value $'000 | 2019 Fair value $'000 | 2018 Carrying value $'000 | 2018 Fair value $'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | N/A | 3 145 | 3 145 | 3 184 | 3 184 |
| Investments | FVTPL | - | - | 989 | 989 |
| Investments | Amortised cost | 962 | 962 | - | - |
| Loans and advances [1] | Amortised cost | 2 078 577 | 2 079 011 | 2 011 487 | 2 010 557 |
| Loans and advances | FVTPL | 129 538 | 129 538 | 54 361 | 54 361 |
| Other financial assets | Amortised cost | 680 | 680 | 662 | 662 |
| **Total financial assets** | | **2 212 902** | **2 213 336** | **2 070 683** | **2 069 753** |
| **Financial liabilities** | | | | | |
| Borrowings [2] | Amortised cost | 2 040 430 | 2 046 973 | 1 897 797 | 1 901 876 |
| Other liabilities | Amortised cost | 4 064 | 4 064 | 4 961 | 4 961 |
| Derivative financial instruments | Hedge accounting (fair value through OCI) | 4 202 | 4 202 | 2 377 | 2 377 |
| Payables | Amortised cost | 4 629 | 4 629 | 4 211 | 4 211 |
| Income tax equivalents payable | Amortised cost | 3 857 | 3 857 | 2 907 | 2 907 |
| Provision for dividend | Amortised cost | 1 694 | 1 694 | 212 | 212 |
| **Total financial liabilities** | | **2 058 876** | **2 065 419** | **1 912 465** | **1 916 544** |
| **Net financial assets** | | **154 026** | **147 917** | **158 218** | **153 209** |

[1]The loans and advances fair value adjustment relates to the fixed interest rate loans portfolio which has been classified as level 3 in the fair value hierarchy. As at balance date, the amortised cost is determined by discounting the expected future cash flows by the current interest rate that would apply to those cash flows based on their remaining term. For loans where the fixed interest rate exceeds the current interest rate, the amortised cost will exceed the face value of the loans.

[2]The fair value of borrowings is determined using SAFA market valuation, which is classified as level 2 in the fair value hierarchy. The market value by SAFA was calculated using mid rates as at close of business 30 June 2019.

### 32.2 Fair value estimation

(a) *Derivatives*

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

(b) *Loans and advances to customers*

The fair value of 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 at market rate. Subsidised loans are discounted using a risk free rate of interest, based on four or seven year (for Advantage Loans) and 10 year (for EquityStart Loans) SAFA bonds.

(c) *Investments*

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

(d) *Shared appreciation component of the Breakthrough and Shared Equity Option Loan*

Note 2.5.3.2 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough and Shared Equity Option Loans.

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 and Shared Equity Option Loans have been determined.

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Valuation determined using an automated method (Hometrack Australia) | 92.7 | 93.9 |
| Valuation provided by the Valuer-General | 6.6 | 5.6 |
| Other valuations used | 0.7 | 0.5 |

(e) *Seniors Equity Loan*

The fair value of the Seniors Equity Loans is estimated by management based on actuarial valuation of the no negative equity guarantee component of the loan, which is determined using the expected mortality rates, property prices and interest rates over the life of the loans.

(f) *Borrowings*

HomeStart reports fair value of its borrowings based on the valuation undertaken by SAFA who is the sole provider of funds to HomeStart.

### 32.3 Hierarchical classification of financial assets measured at fair value

The following discloses, for each class of financial instrument measured at fair value, the level in the fair value

- 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 transfers between Level 1, Level 2 and Level 3 during the financial year.

| **2019** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Loans and advances at FVTPL | - | - | 129 538 | 129 538 |
| **Total financial assets measured at fair value** | **-** | **-** | **129 538** | **129 538** |
| | | | | |
| **Financial liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | ( 4 202) | - | ( 4 202) |
| **Total financial liabilities measured at fair value** | **-** | **( 4 202)** | **-** | **( 4 202)** |

| **2018** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| SAFA Cash Management Fund (Wyatt) | - | 989 | - | 989 |
| Loans and advances at FVTPL | - | - | 54 361 | 54 361 |
| **Total financial assets measured at fair value** | **-** | **989** | **54 361** | **55 350** |
| | | | | |
| **Financial liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | ( 2 377) | - | ( 2 377) |
| **Total financial liabilities measured at fair value** | **-** | **( 2 377)** | **-** | **( 2 377)** |

### 32.4 Reconciliation of Level 3 fair value measurements

| | **2019 $'000** | **2018 $'000** |
|---|---|---|
| **Fair value at 1 July** | **54 361** | **59 822** |
| Breakthrough Loan settlements | - | 965 |
| Breakthrough Loan discharges | ( 4 781) | ( 6 916) |
| Shared Equity Option Loan settlements | 3 580 | 135 |
| Shared Equity Option Loan discharges | ( 35) | - |
| Seniors Equity Loan reclassified to FVTPL on adoption of AASB 9 | 75 312 | - |
| Seniors Equity Loan settlements | 9 169 | - |
| Seniors Equity Loan discharges | ( 7 574) | - |
| Unrealised change in fair value of loans (note 12 and 5) | ( 494) | 355 |
| **Fair value at 30 June** | **129 538** | **54 361** |

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

## NOTE 33 Events after balance date

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

## NOTE 34 Segment reporting

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

## NOTE 35 Economic dependency

HomeStart has an economic dependency on SAFA as the sole provider of funds to HomeStart.

**INDEPENDENT AUDITOR'S REPORT**

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Auditor-General's Department

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**To the Chair**
**HomeStart Finance**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 27(4) of the *Urban Renewal Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2019.

## Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the HomeStart Finance as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2019
- a Statement of Financial Position as at 30 June 2019
- a Statement of Changes in Equity for the year ended 30 June 2019
- a Statement of Cash Flows for the year ended 30 June 2019
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and the Chief Financial Officer.

## Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of HomeStart Finance. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants* have been met.

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

### Responsibilities of the Chief Executive Officer and the Board for the financial report

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

In preparing the financial report, the Chief Executive Officer is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the entity is to be liquidated or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for overseeing the entity's financial reporting process.

### Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HomeStart Finance's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer

- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer and the Board about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson
**Auditor-General**
20 September 2019

# HomeStart Finance


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Government of South Australia

HomeStart FINANCE