Government of South Australia

HomeStart FINANCE

# Annual Report

2017-18

# Contents



28 September 2018

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 2017-18 Annual Report**

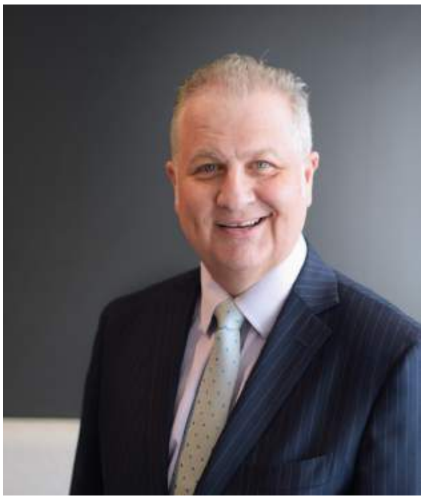
It gives me great pleasure to present a summary of HomeStart's achievements over the 2017-18 financial year.

HomeStart continued to make home ownership a reality for more South Australians in more ways, assisting 1 779 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**

Resilience is in many ways an old-fashioned word. It is a word that is often used to praise generations past, yet is a quality we need in today's dynamic society as our community grapples with rapid change.

It is also a word that reflects the values of HomeStart Finance and most importantly its customers.

These customers are people, who often, have shown extraordinary resilience in their lives. They are members of our community who have turned to HomeStart when it matters - to help them with one of the biggest decisions they may make: buying their own home.

In 2017-18, we maintained our laser-like focus on getting more South Australians into their own home. In fact, 1 779 South Australians were able to buy a home with HomeStart's assistance. Total lending for the year was $510 million and our loan book is now more than $2.1 billion.

We again exceeded the financial targets set by the State Government. HomeStart's operating profit before tax was $18.9 million, representing a return on equity of 11.5% against a target of 9%.

Our total payments (through dividends and tax equivalent charges) to Government for the financial year amounted to $55 million - a return on capital invested of 33.6%. HomeStart has paid $613 million to the Government since 1989 and helped almost 71 000 people buy their own home.

This is an outstanding performance by our committed workforce who are proud to work for a purpose-led organisation that is commercially successful. It also reflects the senior management's commitment, working with the Board, to refine and execute our business strategy.

**Market conditions and our geographic spread**

While we are operating in a low interest environment, credit conditions have tightened and almost 90% of our customers were not able to secure finance from a mainstream lender. While HomeStart's heartland continues to be in the south and north of Adelaide, almost a quarter of customers (22%) came from outside metropolitan Adelaide, while in the construction lending segment, steady growth was recorded in the Adelaide Hills.

The South Australian housing market remained relatively stable over the past year, however, the state recorded a 12.7% increase in new dwelling approvals during this time. HomeStart's construction lending also grew significantly during this period and represented 23.5% of total new lending by numbers, and close to 15.5% market share of first home buyers in the construction sector. There were 418 construction loans approved by HomeStart in 2017-18, representing $135 million of lending and an increase on the 254 loans of this type approved two years ago. This growth can largely be attributed to new partnerships with leading builders which helped home buyers access house and land packages with low upfront costs.

Product innovation has been a key contributor to HomeStart's success. The Shared Equity Option product was launched in April 2018, providing a purchasing power boost for buyers without increasing their ongoing commitments. It replaced the Breakthrough Loan, which settled 1 344 loans over 11 years and cemented HomeStart's reputation as one of Australia's most experienced shared equity operators. We look forward to the uptake of the Shared Equity Option accelerating during the next year.

The HomeStart Graduate Loan also reached an important milestone during the past year, with more than $1.2 billion of lending recorded since 2002, including 774 Graduate Loans settled in the past financial year, up 41% on 2016-17 figures.

**HomeStart presents to the World Bank**

The World Bank recognised HomeStart as a global leader in the field of affordable housing finance at its biannual Global Housing Finance Conference in Washington DC in May 2018. Our research paper entitled "Education qualifications as a predictor for home loan success" and presented by Head of Strategic Development Andrew Mills to an audience of over 250 people from 50 countries, was voted by the World Bank to be the number one piece of research to be revealed at the conference. In addition, CEO John Oliver presented on our experiences with our shared equity loans. The research and product presentations prompted lenders from around the world to investigate how using a model like HomeStart's could expand their lending options by including education as a component of their credit decision.

**Governance**

The governance of any organisation is central to maintaining a suitable future. We had a change of government in South Australia earlier this year and the transition for HomeStart has been seamless. Our new Minister, the Hon Stephan Knoll MP, has provided considered support to our business model and the importance of taking a longer-term perspective.

My fellow Board directors have shown diligence and passion for their work and I wish to thank them for their considered advice and support.

Finally, I wish to report that HomeStart's 2018-21 Strategic Plan sets ambitious targets to improve the organisation's leadership, productivity, customer financial sustainability, and influence. In particular, we continue to put the customer at the heart of HomeStart, doing our best to simplify the way we do business.

**Jim Kouts**
Chair

**Our people**

Our people are the most important asset of our organisation. They provide the passion, inspiration, vision and commitment needed to continue to challenge how, as an organisation, we can truly work towards achieving our reason for being – making home ownership a reality for more people in more ways.

It is for this reason that we invest in helping develop and grow our employees both in terms of their technical skills and knowledge, but perhaps more importantly, their leadership skills and understanding of self which enables them to bring the best of themselves to work every day. Supporting this, our Wellbeing Team has developed programs across five key areas, including social, community, financial, physical and career wellbeing, enabling employees to attend workshops, free lunch-time seminars, take part in volunteering duties and undertake cross-skilled training.

The value of these initiatives and our investment is reflected in our employee engagement scores which we survey twice each year using the Peoplestream's Global Employee Engagement Survey. This has resulted in consistent organisational engagement scores in excess of the Australian financial services sector and well above the global averages of all organisations which participate.

A significant achievement this year was being awarded the Human Synergistics Cultural Transformation Award for Australia and New Zealand. This was an outstanding achievement and recognition of the sustained focus and progress HomeStart has made in the development and growth of its culture over many years.

**Our customers**

There would be no HomeStart without our customers. While first home buyers continue to make up the majority of those we help get a foot on the property ladder, there are many other sectors of the community we assist, including migrants from more than 100 countries, single parents starting over and seniors.

I'm pleased to report that during 2017-18 we were able to help 1 779 South Australians into home ownership with total lending in excess of $510 million, whilst we grew our gross loan portfolio by $163 million to $2.1 billion.

This solid growth in the loan portfolio was also underpinned by a strong focus around ensuring our credit quality did not diminish. Notwithstanding some of the admissions coming out of the Banking Royal Commission in terms of automated credit approvals and credit assessment methods, all HomeStart loan applications are approved by human hands and we ensure that bank statements and actual expenditure is reconciled. Over the year we saw an improvement in the management of our arrears, but at the same time our approach to keeping people in home ownership wherever possible, was still maintained.

Many of our customers came to HomeStart via our three offices – in Salisbury, Morphett Vale and the Adelaide CBD. These offices combined settled 589 loans for $166 million during the past financial year. The broker channel continued to be an integral and growing contributor to our business with brokers settling 988 new loans worth $302 million, representing 60% of new lending, an increase from 54% last financial year. HomeStart's broker team has put significant time and effort into building strong relationships with our network of accredited brokers and this is now paying dividends. Our valued and longstanding relationship with BankSA continued during the year, although the manner in which we partner with and process new business will change slightly from late 2018.

Before customers walk through our doors or visit a broker, they have in all likelihood interacted with HomeStart online or over the phone. We have continued to expand the ways in which we communicate with customers amid a constantly changing social media and technological landscape. Almost 60% of the over 250 000 visitors who clicked on our corporate website did so from their mobile device and we have worked hard to make our content and processes as mobile-friendly as possible. Our Facebook followers increased by almost 20% in the past year and successfully directed traffic to our corporate website. The MyStart blog, housed on our website, also helped attract customers by promoting interesting and relevant articles across a broad range of topics associated with the journey of home ownership.

During the year our marketing team successfully delivered increased brand awareness, with one of the highlights being two new television commercials and an advertising campaign focused on single income families and the parents of first home buyers.

**Our community**

We want to help build strong and thriving communities through our partnerships, as well as our people, and we were able to continue this during the past 12 months.

In July 2017, we announced a new partnership with Netball SA. The Netball SA community includes 41 associations throughout the state and 32 000 members. It is a sport that brings players, umpires, coaches and volunteers together to be active, socialise and have fun. As part of this sponsorship, we became the naming rights partner to the SA Districts Netball Association facility at Golden Grove, which is now called HomeStart Finance Park. We also continued to support emerging and future graduates through our sponsorship arrangements with the TAFE SA Fashion Graduate of the Year and the Building and Construction Awards.

As part of demystifying the home buying process and educating aspiring home buyers, we held nine home buyer seminars that attracted hundreds of attendees in both metropolitan Adelaide and for the first time regional SA in Port Lincoln, Mt Gambier and the Riverland.

**World Bank Global Housing Finance Conference**

Undoubtedly one of the highlights of this past financial year was having the privilege of attending and presenting at the World Bank Global Housing Finance Conference in Washington DC. Andrew Mills, our Head of Strategic Development, presented our conference winning paper on "Education qualifications as a predictor for home loan success" detailing our 15-year experience with our Graduate Loan, whilst I was able to share our journey and positive outcomes created with our shared equity loans. We both came away from the conference, which was attended by over 250 delegates from around the world, with a very clear understanding of the value and importance of home ownership.

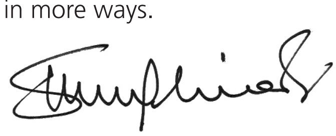
The commitment to, and sense of pride of even the poorest people in the world in owning their own home, was inspiring and reinforced the value and core purpose of what HomeStart is all about. It was also evident that HomeStart is a very unique organisation that is not replicated in any other country around the world and is something, as South Australians, we should all cherish.

**In closing**

During the year, and in conjunction with the Board, we developed a new strategic plan for 2018-21 to which we will now turn our attention as we strive to continue to build upon the strong performance HomeStart has delivered through previous strategic plans.

I want to thank our Board for their wisdom, guidance, encouragement and support during the year.

To close, every day I am fortunate to work with a great team who all share a common purpose of helping South Australians achieve their dreams of home ownership. Whilst we all reflect with pride on another year of successful outcomes and achievements, we also look forward to being able to implement our new strategic plan and ensure we continue 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 28 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**

As of March 2018, 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 a vibrant city with safe and healthy neighbourhoods.

## Our **strategy 2015-18**

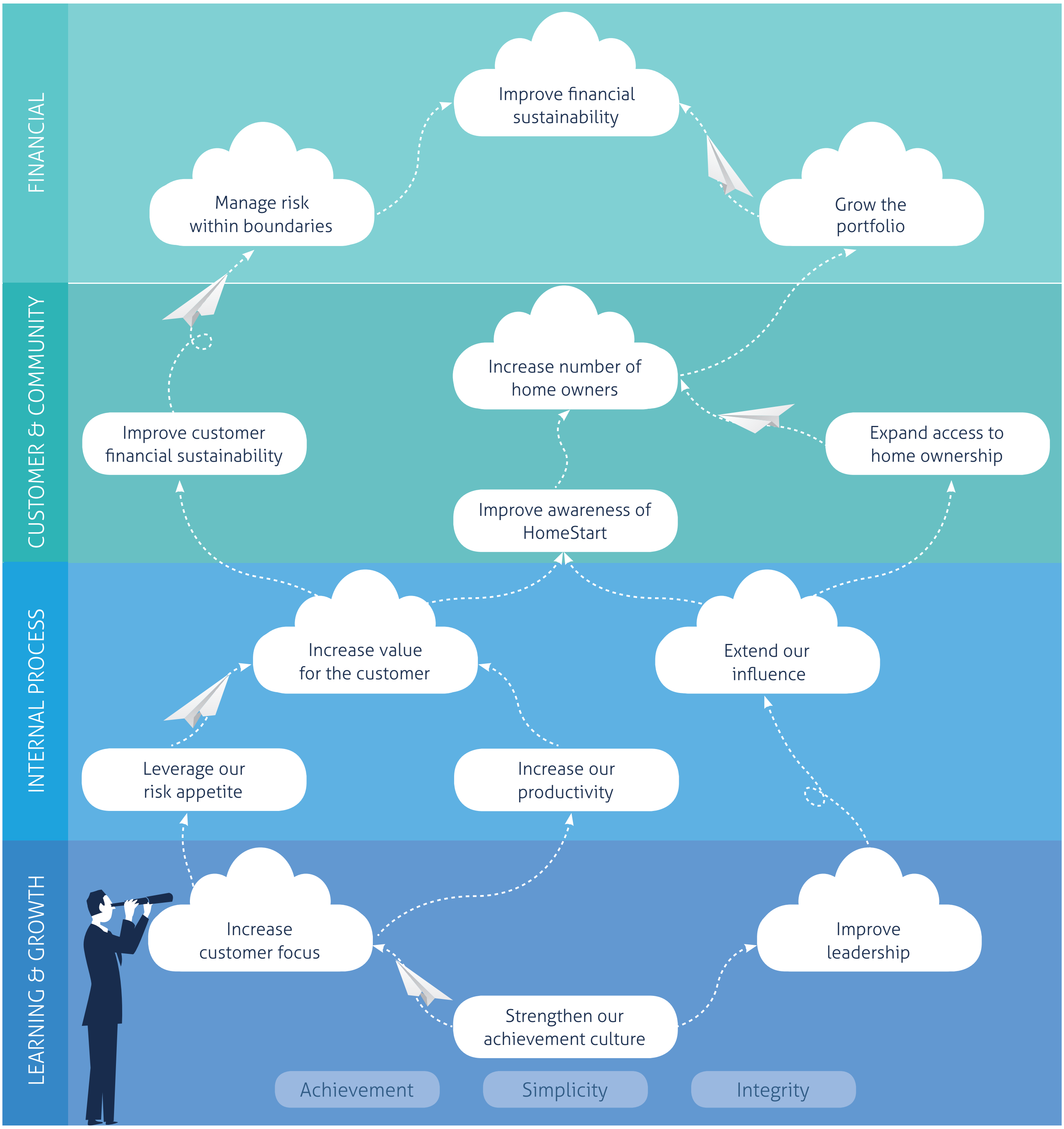
Our priorities are to:

- increase the number of people we help
- grow our income faster than expenses
- strengthen our achievement culture.

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

## Our strategy 2015-18

This strategy map highlights how we achieve our goals:



# Customer & Community

# Our **customers**

Over 28 years we have helped almost 71 000 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 100 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 1 779 customers in 2017-18:

- 1 003 were first home buyers
- 59% were leaving private rental
- 32% bought homes in the northern fringes of metropolitan Adelaide, while 22% bought homes in the country
- 418 built new homes, representing 23.5% of new lending
- 91.2% of the portfolio were in advance of their repayments, an increase from last year
- the average loan size was $287 475, an 11.7% increase on last financial year
- the average purchase price was $325 102
- almost 90% 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 2017-18. Data from CoreLogic showed a 1.1% increase in Adelaide's median house price and a -0.1% decline for regional South Australia.

South Australia saw an increase in new dwelling approvals (+12.7% vs the previous financial year), which correlates with good results for HomeStart's construction lending product. This was further underpinned by the ongoing First Home Owner Grant and the State Government's support of urban infill projects.

Against an economic backdrop that featured above average but reducing unemployment and slow population growth, HomeStart strengthened its market position as a unique niche lender and settled 1 779 loans – an increase of 6.3% from last financial year.

# 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 4 138 graduates buy a home with a deposit from 3%, with loans totalling more than $1.2 billion. With the Graduate Loan available to graduates with Certificate III and above qualifications, HomeStart has seen significant growth in this product. A total of 774 Graduate Loans were settled in 2017-18, an increase of 51% in value and 41% in number of loans compared to the previous financial year. This is a particularly 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. During the year, HomeStart's Graduate Loan was recognised by the World Bank as a leading innovation in affordable home finance and it represents a unique approach to lending that could be readily replicated in a number of countries.

## 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 two years, HomeStart has worked to establish relationships with almost all leading builders and developers, 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 418 in 2017-18, representing more than $135 million of lending, 91% of these customers are first home buyers. Economic modelling suggests that HomeStart's construction lending activities support more than 300 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 represents a substantial simplification of the old product and provides low to moderate income customers with a significant purchasing power boost 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.

By year end, a total of 1 344 Breakthrough Loans were settled prior to its withdrawal, and three Shared Equity Option loans settled.

## 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 2017-18, the number of Advantage Loan settlements decreased by more than 24% compared to the previous financial year, totalling $11.5 million in value.

Since 1993, the Advantage Loan has helped 13 042 households achieve their home ownership aspirations. A total of 440 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, 342 customers have accessed the Wyatt Loan. In 2017-18, a total of 28 Wyatt Loans were settled to the value of $242 825.

### 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 20 Low Deposit Loans were settled this financial year.

### EquityStart Loan

The EquityStart Loan is a joint initiative with the State Government Department for Communities and Social Inclusion and is a secondary loan of up to $50 000 for current social or public housing tenants, combined with a HomeStart loan. Customers can use the loan to buy the Housing SA home they're living in (if it is for sale), another Housing SA property, a property on the private market, or to build. A total of 40 EquityStart Loans were settled this financial year. Funding for the EquityStart Loan is expected to be exhausted in the coming year and the product will be withdrawn.

### 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 93 Seniors Equity Loans were settled this financial year.

## Distribution

The HomeStart offices consist of the Adelaide city office, an office in Morphett Vale and an office in Salisbury. A total of 589 loans were settled for $166 million in the 2017-18 financial year via the HomeStart offices, including 225 loans valued at $74 million via the city office and 364 loans valued at $92 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 2017-18, brokers settled 988 new loans worth $302 million, representing over 60% of new lending and an increase from 54% compared to last financial year. HomeStart now has 523 accredited brokers that can offer a range of loans, with 131 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.

In 2017-18, the corporate website had 251 725 visitors, representing an 8% increase on the previous year, of which 78.4% were first time users. A consistent content strategy for the MyStart blog contributed to this with 49 713 users. The majority of users came via their mobile device (58%) followed by desktop (35%) and tablet (7%).

HomeStart's Facebook community of potential and current customers increased from 10 365 followers to 12 382, which is a 19% increase. Further, 7 134 users went to the HomeStart corporate website from Facebook.

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'.

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

By investing in brand building opportunities, via television, radio, bus backs, AdShell, 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).

During 2017-18, there were 8 991 new enquiries received. This included phone, social media, AdWords, seminars, web forms and walk ins.

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 2017-18, HomeStart continued to rate extremely well on NPS with an average score of 64%. This dramatically exceeds both internal targets and the financial services industry average.

## **Community** lending

HomeStart's specialist community lending team has achieved 482 community housing outcomes with the approval of $48.3 million in loans since its inception 11 years ago. HomeStart partners with Federal and State Government agencies that provide grant funding or land transfers to deliver community lending finance. The loans support the housing goals of community housing organisations that operate 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. Nine seminars were held in 2017-18 attracting 454 attendees.

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

# Corporate **volunteering**

HomeStart offers all employees one day of corporate 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.

# **Sponsorship** and donations

In 2017-18, HomeStart helped the following organisations by donating or sponsoring their causes:

- Bhutanese Association of South Australia
- Movember
- Jodie Lee Foundation (JLF) Trek
- Diabetic Association
- Alzheimers Australia
- TAFE SA Building and Construction Most Outstanding Student
- TAFE SA Fashion Graduate Student of the Year
- Leukaemia Foundation
- Netball SA.

# Learning & Growth

# Our **people**

People are at the heart of HomeStart's success. In 2017-18, investment in their development continued, which we believe supports and enhances the customer experience.

HomeStart continued to strengthen a values-aligned achievement culture and attained an employee engagement score at a globally recognised and highly engaged benchmark. Progress has been made in 2017-18, with HomeStart's employee engagement score in May 2018 rating at 82.45%. This compares to an average score of 81.83% across Australian financial institutions who complete similar surveys, and a global corporate average score of 75.87%.

During the year, performance and development initiatives included:

- Ongoing positive contribution from the Culture Council, our in-house culture ambassadors and advocates across the business
- Formation of a WellBeing Team to drive the HomeStart WellBeing Program across the five core areas; social, community, financial, physical and career wellbeing
- All employees attended "7 Habits of a Healthy Mind", a proactive workshop aimed at maintaining a healthy lifestyle, facilitated by Dr Tom Nehmy
- Continuation of the 'I Make A Difference' volunteering day, to provide an opportunity for all employees to engage and support the community in areas they are passionate about
- Ongoing development of HomeStart's people leaders to enhance their self-awareness and coaching skills to influence the organisational culture on an ongoing basis
- A fourth 'BluePrint' self-leadership program, providing an additional 14 HomeStart employees with the opportunity to discover their strengths and passions, and enable them to give their best contribution to their work and life.

In October 2017, HomeStart was awarded the Human Synergistics Cultural Transformation Award for Australia New Zealand, which was in recognition of ongoing positive results in the Human Synergistics Constructive styles to support business success and growth.

HomeStart continues to offer flexible work arrangements to balance the needs of employees and the business. Other benefits include:

- An annual healthy lifestyle benefit for participation in activities or programs that contribute to a healthy lifestyle
- Five weeks annual leave entitlement
- Leave to support further study.

Executive Team, from left: John Oliver, Maree McAuley, David Hughes, Deborah Dickson, Kay Lindley, Andrew Mills.

# Learning and **growth statistics**

## Documented review of individual performance management

| Employees with | % of workforce |
|---|---|
| A review within the past 12 months | 100.0 |
| A review older than 12 months | 0.0 |
| No review* | 0.0 |

*new employees at HomeStart and/or casual

## Average days leave per full-time equivalent employee

| Leave type | 2017-18 | 2016-17 | 2015-16 | 2014-15 |
|---|---|---|---|---|
| Sick leave | 5.6 | 5.4 | 5.8 | 5.2 |
| Family carer's leave | 1.6 | 1.3 | 1.2 | 1.3 |
| Miscellaneous special leave | 0.0 | 0.0 | 0.5 | 0.6 |

## 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 | 2 | 0 | 2 | 1.9 | 9.7 |
| 25-29 | 3 | 3 | 6 | 5.7 | 11.2 |
| 30-34 | 4 | 2 | 6 | 5.7 | 10.7 |
| 35-39 | 6 | 7 | 13 | 12.3 | 9.6 |
| 40-44 | 7 | 12 | 19 | 17.9 | 11.4 |
| 45-49 | 10 | 8 | 18 | 17.0 | 11.1 |
| 50-54 | 8 | 8 | 16 | 15.1 | 11.4 |
| 55-59 | 8 | 7 | 15 | 14.1 | 9.1 |
| 60-64 | 4 | 6 | 10 | 9.4 | 6.7 |
| 65+ | 1 | 0 | 1 | 0.9 | 3.6 |
| **TOTAL** | **53** | **53** | **106** | **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

## Leadership and management training expenditure

| Training and development | Total cost $'000 | % of total salary expenditure |
|---|---|---|
| Total training and development expenditure (includes leadership and management development expenditure) | 601 | 5.4 |
| Total leadership and management development expenditure | 178 | 1.6 |

## Total number of employees with disabilities

| Male | Female | Total | % of workforce |
|---|---|---|---|
| 0 | 0 | 0 | 0.0 |

## 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**
  - **HomeStart Board**
    - **Chief Executive Officer**
      - Chief Financial Officer
        - Asset and Liability Management
        - Finance
        - Business Analysis
        - Information Assets Management
        - Information Services
      - Head of Strategic Development
        - Strategy
        - Marketing and Communications
        - Product Development
        - Business Intelligence
        - Facilities
        - Continuous Improvement
        - Project Management
      - Head of Retail
        - Sales
        - Lending Operations
        - Third Party Integration
        - Customer Relationships
        - Retail Systems 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

# 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, 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 2017-18 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.

## 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 a representative from the South Australian Government Financing Authority (SAFA) also attend. The committee ensures HomeStart:

- operates in a commercial manner and manages risk prudently
- 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 2017-18 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 appointment rests with the CEO. Details of executive remuneration are set out in Note 7 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; staff, 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 31000:2009) 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.

A matter associated with a breach of compliance training by a number of employees was investigated and action taken in line with business requirements.

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 90.

Deloitte conducted the operational internal audit function for 2017-18 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 – Deputy Chair

Mr Ward is a professional director with experience in multiple business disciplines, having had a long and distinguished banking career with BankSA. He is a Director of the South Australian Film Corporation (SAFC), Chair of Board Finance and a member of the Remuneration Committee at SAFC. As well as being an Advisory Board Member to several private companies he is also an Executive Partner at UniSA.

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.

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 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 has 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 | 10 |
| S Berggren | 11 | 10 |
| C King | 10* | 9 |

* Reflects time of service as a Director

| Member | Audit Committee attendance | |
|---|---|---|
| | Eligible to attend | Meetings attended |
| J Kouts (Chair) | 1* | 1 |
| C Ward (Deputy) | - | - |
| S Edwards | 7 | 7 |
| D Royans | - | - |
| C Zollo | 1 | 1 |
| S Berggren | 7 | 6 |
| C King | 6 | 5 |

* Attended as an alternate member

| Member | Asset & Liability Committee attendance | |
|---|---|---|
| | Eligible to attend | Meetings attended |
| J Kouts (Chair) | 1* | 1 |
| C Ward (Deputy) | 11 | 11 |
| S Edwards | - | - |
| D Royans | 11 | 11 |
| C Zollo | 10 | 9 |
| S Berggren | - | - |
| C King | - | - |

* Attended as an alternate member

# Statutory information

## Work Health & Safety (WHS)

HomeStart continues its commitment to maintaining and providing a safe work environment, with a focus on employees being injury free. Looking at ways to improve and support the wellbeing of employees continues to be a focus.

HomeStart formed a Wellbeing Team in 2016-17 made up of employee representatives from across the business. The WellBeing Team has continued to maintain a primary focus on "proactively supporting the total wellbeing of all employees across five core areas", with the aim that people will "leave work healthier than when they arrived". The following five core areas support a healthy workforce:

- physical wellbeing – having good health and enough energy to get things done on a daily basis
- community wellbeing – the sense of engagement you have with the area you live
- career wellbeing – how you occupy your time or simply liking what you do every day
- financial wellbeing – effectively managing your economic life
- social wellbeing – having strong relationships and love in your life.

All activities offered align with the above five core areas which include, but are not limited to:

- flu vaccinations
- lunch time information sessions across a number of topics:
  - mental health awareness (including SafeTALK training and mental health awareness training)
  - financial management
  - health education
  - meditation and mindfulness
- participation in fundraising events (e.g. Australia's Biggest Morning Tea, Jodie Lee Foundation Trek)
- Onsite massages
- Access to free Employee Assistance Program
- 7 Habits of a Healthy Mind Program + 30 Day Challenge for all employees facilitated by Dr Tom Nehmy.

In addition we:

- ensure that employees returning to work from an illness/ injury are provided with appropriate support and have the necessary equipment and resources to fulfil the requirements of their role
- continue to provide online training; mandatory and optional training opportunities
- ensure that people leaders are appropriately trained and are aware of the importance of reporting, rehabilitation and undertake early intervention strategies
- conduct 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 2017-18 compared with 2016-17[2]**

| Expenditure | 2017-18 $'000 | 2016-17 $'000 | Variation $'000 + (-) | % Change + (-) |
|---|---|---|---|---|
| Legal | 0 | 25 | (25) | Undefined |
| Medical – Allied Health | 0 | 0 | 0 | 0 |
| Medical Services | 2 | 0 | 2 | Undefined |
| Other – Non-compensation | 0 | 3 | (3) | Undefined |
| Redemption of Medical Expenses | 0 | 20 | (20) | Undefined |
| **Total claims expenditure** | **2** | **48** | **(46)** | **Undefined** |

[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 2017-18 with a value greater than $4 million (GST inclusive), excluding property leases.

## Overseas travel

Two HomeStart executives made overseas trips during 2017-18 for work-related purposes.

## 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 | 3 | 20 |
| **Total consultancies $10 000 and above** | | 2 | 106 |
| Tasman Human Resources | Information System Review | | |
| Ernst & Young | Accounting Standard Support | | |
| **Total consultancies** | | **5** | **126** |

# Financials

# Sustainable financial management

In 2017-18, HomeStart achieved the financial targets set by the State Government, including an operating profit before tax of $18.9 million and representing a return on equity of 11.5% against a target of 9%.

HomeStart continued to provide substantial payments to the Government, amounting to $55 million for the year and totalling $613 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 $6.6 million in 2017-18 ($6.2 million, 2016-17) in recognition of the cost of providing our non-commercial activities.

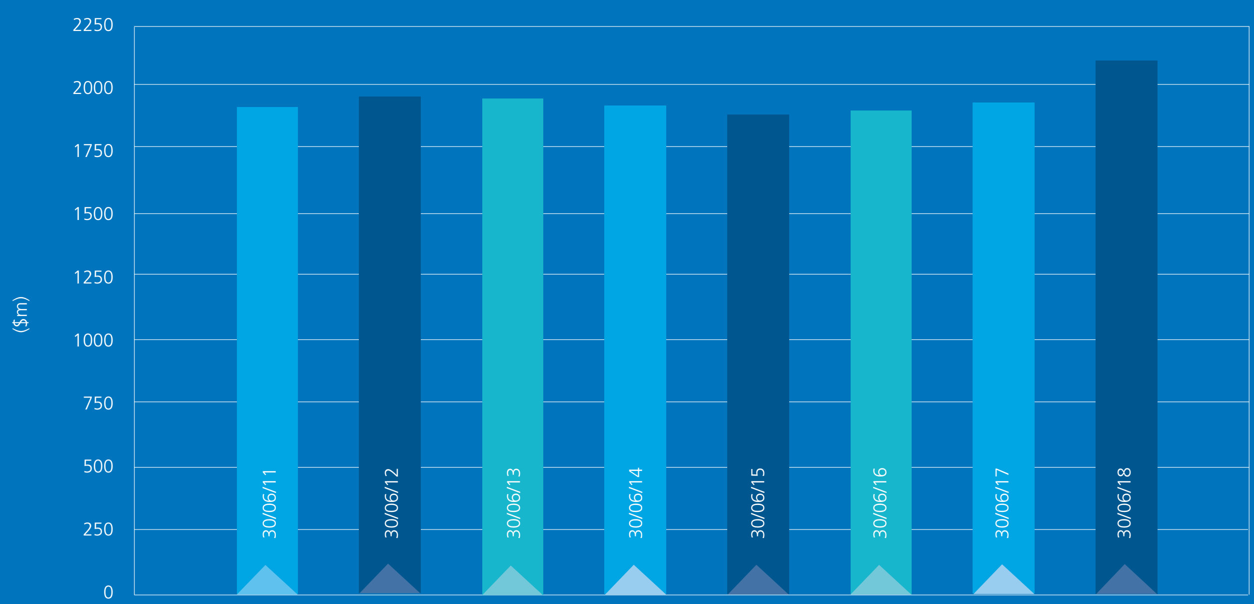
HomeStart's debt funding from SAFA was $1.9 billion against a borrowing limit of $2.1 billion. Our capital adequacy ratio was 13.7% (15.6%, 2016-17) against a target of 12%. HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, if necessary.

## Asset and liability management

The gross loan portfolio increased in 2017-18 to $2.1 billion ($1.9 billion, 2016-17) as lending volumes increased throughout the year and loan discharge levels decreased. 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 $17.5 million ($18.2 million in 2016-17) against its loan portfolio. These provisions have been calculated in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS), which stipulate that impairment losses should be recognised only if there is objective evidence of impairment, as a result of one or more loss events that occurred after the loan was initially settled.

HomeStart also maintains a general reserve for credit losses of $8.1 million ($8.3 million, 2016-17). The amount of the reserve has been determined in accordance with provisioning policies generally accepted within the finance industry prior to the adoption of AIFRS, which HomeStart believes more accurately 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.

HomeStart has assessed the impact of the new accounting standard AASB 9 Financial Instruments which HomeStart will apply from 1 July 2018. The estimated impact of the adoption of AASB 9 is disclosed in Note 3 to the financial statements.

| Financial indicators | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|
| Operating profit ($m) | 18.9 | 20.3 | 17.0 | 15.6 | 17.0 | 16.4 | 14.4 | 15.5 |
| Return on Equity | 11.52% | 12.57% | 10.29% | 9.09% | 10.21% | 10.26% | 9.22% | 9.92% |
| Net interest margin | 1.20% | 1.32% | 1.18% | 1.03% | 1.09% | 1.16% | 0.84% | 0.67% |
| **Balance sheet strength** | | | | | | | | |
| Capital ($m) | 162.2 | 165.4 | 157.3 | 173.2 | 169.3 | 164.2 | 154.5 | 155.1 |
| Provisions ($m) | 17.5 | 18.2 | 17.3 | 18.0 | 20.5 | 20.1 | 19.2 | 18.1 |
| Gross loan portfolio ($m) | 2103.1 | 1939.7 | 1867.7 | 1840.2 | 1907.6 | 1962.2 | 1975.2 | 1922.3 |
| Net loan losses ($m) | 0.07 | 0.17 | 0.81 | 0.40 | 0.90 | 0.84 | 0.54 | 0.13 |

## Financial contributions to the State Government

$612.7 million paid to the State Government since inception.

| Payment Type ($m) | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 1995[1] - 2012 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Guarantee fee | 28.6 | 28.0 | 26.5 | 27.5 | 28.0 | 27.1 | 158.6 | 324.3 |
| SAFA[2] admin fee | 1.1 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 11.0 | 17.3 |
| Income tax | 6.2 | 5.2 | 4.9 | 5.1 | 5.0 | 4.4 | 52.8 | 83.6 |
| Dividends | 9.1 | 7.1 | 7.1 | 7.1 | 7.2 | 6.3 | 66.3 | 110.2 |
| Interim (special) Dividend | 10.0 | 0.0 | 20.0 | 0.0 | 0.0 | 0.0 | 47.3 | 77.3 |
| **Total paid** | **55.0** | **41.3** | **59.5** | **40.7** | **41.3** | **38.9** | **336.0** | **612.7** |

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

# Certification of the Financial Statements

For the year ended 30 June 2018

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 2018 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
18 September 2018

**Chris Ward**
Deputy Chair
18 September 2018

**John Oliver**
Chief Executive Officer
18 September 2018

**David Hughes**
Chief Financial Officer
18 September 2018

# Statement of Comprehensive Income

## For the year ended 30 June 2018

| | Note No. | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Interest income | 4 | 101 346 | 96 345 |
| Interest expense | 4 | ( 38 647) | ( 35 569) |
| **Net interest income** | 4 | **62 699** | **60 776** |
| Other income | 5 | 11 386 | 12 474 |
| Net gain from disposal of assets | 2.8.7 | - | 1 |
| Loan manager fees | | ( 3 876) | ( 4 330) |
| Employee benefits expenses | 6 | ( 12 027) | ( 10 891) |
| Bad and impaired loans expense | 10 | ( 2 353) | ( 2 901) |
| Depreciation and amortisation expense | 11 | ( 1 225) | ( 1 281) |
| Other expenses | 12 | ( 7 126) | ( 6 641) |
| Profit before income tax equivalents and government guarantee fee expenses | | 47 478 | 47 207 |
| Government guarantee fee | 9 | ( 28 605) | ( 26 931) |
| **Profit before income tax equivalents** | | **18 873** | **20 276** |
| Income tax equivalents expense | 2.6 | ( 5 662) | ( 6 083) |
| **Profit after income tax equivalents** | | **13 211** | **14 193** |
| Other Comprehensive Income | | | |
| *Items that will be reclassified subsequently to net results when specific conditions are met* | | | |
| Change in fair value of derivatives | | 1 470 | 3 065 |
| Reclassified to profit on disposal/change in fair value of available-for-sale assets | 15.2 | - | ( 629) |
| **Total other comprehensive income** | | 1 470 | 2 436 |
| **Total comprehensive result** | | **14 681** | **16 629** |

**The profit after income tax equivalents and total comprehensive result are attributable to the SA Government as owner.**

The above statement should be read in conjunction with the accompanying notes.

# Statement of Financial Position

## As at 30 June 2018

| | Note no. | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 31.1 | 3 184 | 4 810 |
| Financial investments designated at fair value through profit or loss | 14 | 55 350 | 60 648 |
| Financial investments – available-for-sale | 15 | - | - |
| Loans and advances | 16 | 2 011 487 | 1 842 232 |
| Other financial assets | 17 | 662 | 620 |
| Intangible assets | 18 | 3 076 | 3 709 |
| Property, plant and equipment | 19 | 2 749 | 3 072 |
| Other assets | 20 | 480 | 378 |
| **Total assets** | | **2 076 988** | **1 915 469** |
| **Liabilities** | | | |
| Payables | 22 | 4 211 | 4 177 |
| Derivative financial instruments | 33.2.2 | 2 377 | 3 847 |
| Short-term borrowings | 23 | 250 797 | 82 725 |
| Employee benefits | 24 | 2 333 | 2 345 |
| Income tax equivalents payable | 25.1 | 2 907 | 3 479 |
| Provision for dividend | 25.2 | 212 | 1 423 |
| Long-term borrowings | 23 | 1 647 000 | 1 647 000 |
| Other liabilities | 26 | 4 961 | 5 072 |
| **Total liabilities** | | **1 914 798** | **1 750 068** |
| **Net assets** | | **162 190** | **165 401** |

# Statement of Financial Position (cont.)

## As at 30 June 2018

| | Note no. | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Equity** | | | |
| Reserves | 27 | 5 707 | 4 487 |
| Retained earnings | | 156 483 | 160 914 |
| **Total equity** | | **162 190** | **165 401** |
| **The total equity is attributable to the SA Government as owner.** | | | |
| Unrecognised contractual commitments | 28 | | |
| Contingent assets and contingent liabilities | 29 | | |

The above statement should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

## For the year ended 30 June 2018

| | Note<br>no. | Retained earnings<br>$'000 | General reserve for credit losses<br>$'000 | Derivatives valuation reserve<br>$'000 | Available-for-sale revaluation reserve<br>$'000 | Total Equity<br>$'000 |
|---|---|---|---|---|---|---|
| **Balance at 30 June 2016** | | **155 618** | **7 953** | **( 6 912)** | **629** | **157 288** |
| **Profit after income tax equivalent for 2016-17** | | 14 193 | - | - | - | 14 193 |
| Change in fair value of derivatives | 2.10.5 | - | - | 3 065 | - | 3 065 |
| Reclassified to profit on disposal of available-for-sale assets | 33.4.2 | - | - | - | ( 629) | ( 629) |
| **Total comprehensive result for 2016-17** | | **14 193** | **-** | **3 065** | **( 629)** | **16 629** |
| Transfer to/from credit loss reserve | 27 | ( 381) | 381 | - | - | - |
| **Transactions with SA Government as owner** | | | | | | |
| Dividends paid/payable | 25 | ( 8 516) | - | - | - | ( 8 516) |
| **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 | 2.10.5<br>33.4.2 | - | - | 1 470 | - | 1 470 |
| **Total comprehensive result for 2017-18** | | **13 211** | **-** | **1 470** | **-** | **14 681** |
| Transfer to/from credit loss reserve | 27 | 250 | ( 250) | - | - | - |
| **Transactions with SA Government as owner** | | | | | | |
| Dividends paid/payable | 25 | ( 7 926) | - | - | - | ( 7 926) |
| Interim dividend paid | 25 | ( 9 966) | - | - | - | ( 9 966) |
| **Balance at 30 June 2018** | | **156 483** | **8 084** | **( 2 377)** | **-** | **162 190** |

**All changes in equity are attributable to the SA Government as owner.**
The above statement should be read in conjunction with the accompanying notes.

# Statement of Cash Flows
## For the year ended 30 June 2018

| | Note no. | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Cash inflows** | | | |
| Interest received on: | | | |
| Cash | | 35 | 33 |
| Investments | | - | 774 |
| Loans and advances | | 97 569 | 91 797 |
| Fees and commissions received | | 2 110 | 2 394 |
| Bad debts recovered | | 193 | 194 |
| **Receipts from SA Government** | | | |
| EquityStart grant received | | 777 | 691 |
| Community Service Obligation subsidy received | | 6 576 | 6 248 |
| Other receipts | | 810 | 510 |
| **Cash generated from operations** | | 108 070 | 102 641 |
| **Cash outflows** | | | |
| Employee benefit payments | | ( 12 039) | ( 11 058) |
| Payments for supplies and services | | ( 7 521) | ( 5 922) |
| Payments to loan managers | | ( 4 549) | ( 4 621) |
| Borrowing costs paid | | ( 38 402) | ( 35 755) |
| Government guarantee fee paid | | ( 28 589) | ( 27 952) |
| Tax equivalent paid | | ( 6 234) | ( 5 162) |
| **Cash used in operations** | | ( 97 334) | ( 90 470) |
| **Net cash provided by operating activities** | 31.2 | 10 736 | 12 171 |

# Statement of Cash Flows (cont.)

## For the year ended 30 June 2018

| | Note no. | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| **Cash inflows** | | | |
| Shared appreciation components of Breakthrough Loan repaid | 34.4 | 6 916 | 8 196 |
| Proceeds from sale of office and computer equipment | | - | 2 |
| Proceeds from sale of available-for-sale investments | | - | 10 560 |
| Proceeds from investments designated at fair value through profit or loss | | - | 39 924 |
| Customer loans repaid | | 316 055 | 334 366 |
| **Cash generated from investing activities** | | 322 971 | 393 048 |
| **Cash outflows** | | | |
| Purchase of property, plant and office and computer equipment | | ( 253) | ( 186) |
| Purchase of software | | ( 35) | ( 685) |
| Purchase of investments designated at fair value through profit or loss | | ( 163) | ( 115) |
| Shared appreciation component of Breakthrough Loan settled | 34.4 | ( 965) | ( 4 589) |
| Shared appreciation component of Shared Equity Option Loan settled | 34.4 | ( 135) | - |
| Customer loans settled | | ( 482 750) | ( 406 547) |
| **Cash used in investing activities** | | ( 484 301) | ( 412 122) |
| **Net cash provided by/(used in) investing activities** | | ( 161 330) | ( 19 074) |
| **Cash flows from financing activities** | | | |
| **Cash inflows** | | | |
| Proceeds from borrowings | | 468 072 | 727 120 |
| **Cash generated from financing activities** | | 468 072 | 727 120 |
| **Cash outflows** | | | |
| Dividends paid to SA Government | | ( 19 104) | ( 7 116) |
| Repayment of borrowings | | ( 300 000) | ( 710 000) |
| **Cash used in financing activities** | | ( 319 104) | ( 717 116) |
| **Net cash provided by/(used in) financing activities** | 31.3 | 148 968 | 10 004 |
| **Net increase/ (decrease) in cash and cash equivalents** | | ( 1 626) | 3 101 |
| Cash and cash equivalents at the beginning of the period | | 4 810 | 1 709 |
| **Cash and cash equivalents at the end of the period** | 31.1 | 3 184 | 4 810 |

The above statement should be read in conjunction with the accompanying notes.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

## 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.

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 2018 was $1 938.5 million ($1 775.2 million, 2016-17).

In addition, HomeStart offers a range of shared equity products and the outstanding value as at 30 June 2018 was $54.4 million ($59.8 million, 2016-17).

**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 2018, the interest rate applying to Advantage Loans was 2.52% (2.57%, 2016-17). The outstanding value of Advantage Loans at 30 June 2018 was $74.7 million ($68.6 million, 2016-17).

For the year ended 30 June 2018, HomeStart received a Community Service Obligation (CSO) subsidy payment of $3.8 million ($3.6 million, 2016-17) 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 2018 was $33.3 million ($33.6 million, 2016-17).

HomeStart receives grant funding from the Department for Communities and Social Inclusion, to compensate HomeStart for costs incurred in relation to EquityStart Loans. During the financial year, HomeStart received $0.7 million ($0.7 million, 2016-17) in the 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 Statement of compliance

These financial statements have been prepared in compliance with Section 23 of the *Public Finance and Audit Act 1987.*

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

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

**2.2 Basis of preparation**

The preparation of the financial statements require:

- the use of certain accounting estimates and management to exercise its judgement in the process of applying HomeStart's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes.
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.
- compliance with Accounting Policy Statements issued pursuant to Section 41 of the *Public, Finance and Audit Act 1987*. In the interest of public accountability and transparency, the Accounting Policy Statements require the following disclosures, which have been included in this financial report:
    - a) revenues, expenses, financial assets and liabilities where the counter party transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of $100 000 for separate identification of these items applies
    - b) expenses incurred as a result of engaging consultants
    - c) employee targeted voluntary separation package information
    - d) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within $10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by HomeStart to those employees.

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

**2.3 Reporting entity**

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.

**2.4 Comparative information**

The presentation and classification of items in the financial statements are consistent with prior periods except where a specific Accounting Policy Statement or specific Australian Accounting Standards have required a change.

Where HomeStart has applied an accounting policy retrospectively; retrospectively restated items in the financial statements; reclassified items in the financial statements, it has provided three Statements of Financial Position and related notes.

The restated comparative amounts do not replace the original financial statements for the preceding period.

### 2.5 Rounding

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

### 2.6 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. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as part of operating cash flows.

### 2.7 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements, where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the events provide information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

### 2.8 Income

#### 2.8.1 *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 2.8.3).

### 2.8.2 *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.

### 2.8.3 *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.

### 2.8.4 *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.

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

### 2.8.6 *Investment income*

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

Distribution income is recognised when entitled.

For financial investments classified as available-for-sale, interest income is recognised as it accrues.

**2.8.7 *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.

**2.8.8 *Other income***

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

**2.9 Expenses**

**2.9.1 *Government guarantee fee***

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

**2.9.2 *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.

**2.9.3 *Employee benefits expenses***

Employee benefits expenses include all costs related to employment including wages, salaries, non-monetary benefits and leave entitlements.

**2.9.4 *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.

**2.10 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, or where offsetting reflects the substance of the transaction or other event.

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

### 2.10.1 *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.

Cash is measured at nominal value.

### 2.10.2 *Financial assets*

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

- cash and cash equivalents (refer to accounting policy note 2.10.1)
- loans and advances (refer to accounting policy note 2.10.3)
- at fair value through profit or loss - managed funds
- at fair value through profit or loss - Breakthrough and Shared Equity Option Loans shared appreciation component
- at available-for-sale bonds
- derivative financial instruments (refer to accounting policy note 2.10.5)

*Loans and receivables*

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

*Financial assets at fair value through profit or loss*

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

HomeStart has designated the shared appreciation component of the Breakthrough and Shared Equity Option Loans and its investments in SAFA managed funds as financial assets at fair value through profit or loss.

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

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

*Shared appreciation component of the Breakthrough 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.

*Available-for-sale financial assets*

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

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

As at 30 June 2018, HomeStart had no available-for-sale financial assets.

### 2.10.3 Loans and advances

*Loans measured at amortised cost*

Loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking 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.

### 2.10.4 Non-financial assets

#### 2.10.4.1 *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.

**2.10.4.2** ***Intangible assets***

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

The useful lives of intangible assets are assessed to be either finite or indefinite. HomeStart only has intangible assets with finite lives. The amortisation period and amortisation method for intangible assets are reviewed on an annual basis.

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.

**2.10.4.3** ***Impairment and revaluation***

In accordance with Accounting Policy Framework III Asset Accounting Framework:

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

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

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.

**2.10.4.4** ***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 |

### 2.10.5 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 purposes.

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

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

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

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

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. HomeStart also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 34.1. Movements in the derivatives valuation are shown in the Statement of Changes in Equity.

#### 2.10.5.1 *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 is reversed through the Statement of Comprehensive Income with all subsequent gains or losses recognised through the Statement of Comprehensive Income.

## 2.11 Liabilities

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

### 2.11.1 *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.

### 2.11.2 *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.

### 2.11.3 *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).

### 2.11.4 *Employee benefits*

Employee benefits are accrued 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 benefits*

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 of sick leave.

**2.12 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.

**2.13 Fair value measurement**

AASB 13 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.

**2.14 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.

### 2.15 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.

### 2.16 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. |
|---|---|
| Investments at fair value through profit or loss – shared appreciation component of the Breakthrough and Shared Equity Option Loan | 2.10.2, 33.4, 34.2 & 34.3 |
| Fair value of subsidised loans and advances | 2.10.3 |
| Loan origination fees received or receivable | 2.8.4 |
| Loan origination fees paid or payable | 2.9.2 |
| Provision for impairment of loans and advances | 2.10.3 |
| Derivative financial instruments | 2.10.5, 33.2.2, 34.2 |

## NOTE 3 New and revised accounting standards and policies

HomeStart did not voluntarily change any of its accounting policies during 2017-18.

Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective, have not been adopted by HomeStart for the period ending 30 June 2018.

HomeStart has assessed the impact of the new and amended standards and interpretations, these are outlined in the table below:

| Reference | Title and date of standard application | Summary | Application date of standard | Impact on financial statements | Application date for HomeStart |
|---|---|---|---|---|---|
| AASB 16 | Leases | This new standard introduces a single lessee accounting model. It requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligations to make lease payments. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. | 1 January 2019 | This new standard significantly changes accounting for lessees requiring recognition of almost all lease arrangements on-balance sheet. HomeStart is currently reviewing its leasing arrangements based on AASB 16. The potential impact of this standard is still being assessed. Considering that HomeStart apart from accommodation lease arrangements have no other significant leasing arrangements, it is unlikely that the standard will have material impact on HomeStart's financial result. | 1 July 2019 |

**AASB 9 Financial Instruments**

In December 2014, the Australian Accounting Standards Board issued the final version of AASB 9 *Financial Instruments*. AASB 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces AASB 139 *Financial Instruments: Recognition and Measurement.*

In December 2017, the Australian Accounting Standards Board issued *Prepayment Features with Negative Compensation (Amendments to AASB 9)*. The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

HomeStart will apply AASB 9 as issued in December 2014 initially on 1 July 2018 and will early adopt the amendments to AASB 9 on the same date. Based on assessments undertaken to date, the total estimated adjustments (net of tax equivalents) of the adoption of AASB 9 on the opening balance of HomeStart's equity at 1 July 2018 is a reduction of approximately $0.5 million, representing:

– an increase of approximately $0.4 million related to classification and measurement requirements, other than impairment (see (i));
– a reduction of approximately $1.1 million related to impairment requirements (see (ii)); and
– an increase of approximately $0.2 million related to tax impacts.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting AASB 9 on 1 July 2018 may change because:

- AASB 9 will require HomeStart to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the first half of 2018, the new systems and associated controls in place have not been operational for a more extended period;
- HomeStart has not finalised the testing and assessment of controls over its new IT system and changes to its governance framework;
- HomeStart is refining and finalising its model for expected credit loss (ECL) calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until HomeStart finalises its first financial statements that include the date of initial application.

**i. Classification - Financial Assets**

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). It eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition HomeStart may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (v) for the transition requirements relating to classification of financial assets.

Under AASB 9, derivatives embedded in contracts where the host is a financial asset in the scope of AASB 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

**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 solely payments of principal and interest, HomeStart will consider the contractual terms of the instrument. This will include 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 will consider:

- 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 and certain fixed-rate corporate 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.

HomeStart has estimated that, on adoption of AASB 9 at 1 July 2018, the impact of the these changes (before tax equivalents) is an increase in HomeStart's equity of approximately $0.4 million.

**ii. Impairment - Financial Assets and loan commitments**

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

AASB 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

HomeStart will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

The impairment requirements of AASB 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

**Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: 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*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to HomeStart if the commitment is drawn down and the cash flows that HomeStart expects to receive.

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 33.2.1).

**Definition of Default**

Under AASB 9, HomeStart will consider a financial asset to be in default when:

- 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); or
- the borrower is more than 90 days past due on any material credit obligation to HomeStart.

This definition is largely consistent with the definition that will be used for regulatory purposes.

In assessing whether a borrower is in default, HomeStart will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources.

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

**Forward-looking information**

Under AASB 9, HomeStart will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. HomeStart will formulate a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on advice from management and economic experts and consideration of a variety of external actual and forecast information. This process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information may include economic data and forecasts published by governmental bodies and monetary authorities and selected private sector and academic forecasters.

The base case will represent a most-likely outcome and be aligned with information used by HomeStart for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes. HomeStart will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

HomeStart has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. 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 4 years.

The economic scenarios used will be approved by the Audit Committee.

**Impact assessment**

The most significant impact on HomeStart's financial statements from the implementation of AASB 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the AASB impairment model.

HomeStart has estimated that, on adoption of AASB 9 at 1 July 2018, the impact of the increase in loss allowances (before tax equivalents) will be approximately $1.1 million.

**iii. Hedge Accounting**

When initially applying AASB 9, HomeStart may choose as its accounting policy to continue to apply the hedge accounting requirements of AASB 139 instead of the requirements in Chapter 6 of AASB 9. HomeStart has elected to continue to apply AASB 139. However, HomeStart will provide the expanded disclosures on hedge accounting introduced by AASB 9 amendments to AASB 7 *Financial Instruments: Disclosures* because the accounting policy election does not provide an exemption from these new disclosure requirements.

**iv. Disclosures**

AASB 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

**v. Transition**

Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, except as described below.

- HomeStart will adopt the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 will generally be recognised in retained earnings and reserves as at 1 July 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist 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.
  - For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in other comprehensive income (OCI) would create or enlarge an accounting mismatch in profit or loss.

## NOTE 4 Net interest income

| Interest received/receivable | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Loans and advances | 95 791 | 90 512 |
| Subsidised loans effective interest income | 4 034 | 3 893 |
| Subsidised loans fair value expense | ( 1 562) | ( 1 011) |
| Loan origination income amortisation | 3 048 | 2 918 |
| Deposits with banks | 35 | 33 |
| **Total interest received/receivable** | **101 346** | **96 345** |
| **Interest paid/payable** | | |
| Borrowings from SAFA | ( 38 647) | ( 35 569) |
| **Total interest paid/payable** | **( 38 647)** | **( 35 569)** |
| **Net interest income** | **62 699** | **60 776** |

## NOTE 5 Other income

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Fees and charges | 2 776 | 2 985 |
| Bad debts recovered | 193 | 194 |
| Unrealised change in fair value of loans* | 355 | 1 009 |
| Realised change in fair value of loans | 722 | 468 |
| Managed funds distribution | - | 26 |
| Interest received from investments at fair value through profit or loss | - | 216 |
| Realised gains on disposal of available-for-sale investments | - | 422 |
| Interest received from available-for-sale investments | - | 173 |
| EquityStart grant | 702 | 687 |
| Community Service Obligation (CSO) subsidy | 6 576 | 6 248 |
| Other | 62 | 46 |
| **Total other income** | **11 386** | **12 474** |

*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 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 $0.7 million ($0.7 million, 2016-17) in grant funds from the Department for Communities and Social Inclusion to compensate HomeStart for costs incurred in relation to EquityStart Loans. Refer to note 26.2 for information in relation to the recognition of EquityStart grant income.

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage 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 2018 ($nil, 2016-17).

## NOTE 6 Employee benefits expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Salaries and wages | 10 005 | 9 101 |
| Long service leave (LSL) | 227 | 120 |
| Annual leave | 57 | 36 |
| Employment on-costs* – superannuation | 938 | 871 |
| Employment on-costs – other | 521 | 484 |
| Workers compensation | 18 | 30 |
| Board and committee fees | 261 | 249 |
| **Total employee benefits expenses** | **12 027** | **10 891** |

*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

The following 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 $3.24 million ($2.93 million, 2016-17).

| **Remuneration of employees** | **2018 No.** | **2017 No.** |
|---|---|---|
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| $147 000 to $149 000 (*) | n/a | 1 |
| $149 001 to $159 000 | 6 | 5 |
| $159 001 to $169 000 | 1 | 1 |
| $169 001 to $179 000 | 1 | 3 |
| $179 001 to $189 000 | 1 | - |
| $189 001 to $199 000 | - | 1 |
| $199 001 to $209 000 | 3 | 1 |
| $219 001 to $229 000 | - | - |
| $229 001 to $239 000 | - | - |
| $239 001 to $249 000 | 1 | - |
| $249 001 to $259 000 | 1 | 1 |
| $259 001 to $269 000 | - | - |
| $269 001 to $279 000 | 1 | 1 |
| $389 001 to $399 000 | - | - |
| $409 001 to $419 000 | - | - |
| $419 001 to $429 000 | 1 | 1 |
| **Total** | **16** | **15** |

*This band has been included for the purposes of reporting comparative numbers based on the executive base level remuneration rate for 2016-17.

**Number of employees**

HomeStart employed 110 people at the end of the reporting period (107, 2016-17).

## 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 five 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 (Appointed 31 July 2017) |

**(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 during the financial year:

| | | |
|---|---|---|
| Mr | John Oliver | Chief Executive Officer |
| Ms | Deb Dickson | Head of Retail |
| Mr | David Hughes | Chief Financial Officer |
| Ms | Kay Lindley | Chief Risk Officer |
| Ms | Maree McAuley | People and Performance Leader |
| Mr | Andrew Mills | Head of Strategic Development |

**(c) Key management personnel compensation**

The compensation of key management personnel for the years ended 30 June 2018 and 2017 included in Employee benefits expenses (see note 6) is as follows:

| | **2018** **$'000** | **2017** **$'000** |
|---|---|---|
| Salaries and other short-term employee benefits | 1 380 | 1 360 |
| Long-term employee benefits (long service leave) | 36 | 30 |
| Long-term employee benefits (amounts paid to superannuation plans) | 129 | 127 |
| **Total** | **1 545** | **1 517** |

### (d) Remuneration of governing board members

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

| | 2018 No. | 2017 No. |
|---|---|---|
| $10,000 - $19 999 | - | 1 |
| $20 000 - $29 999 | - | 2 |
| $30 000 - $39 999 | 4 | 2 |
| $40 000 - $49 999 | 2 | 2 |
| $50 000 - $59 999 | 1 | 1 |
| **Total number of governing board members** | **7** | **8** |

The total remuneration received and receivable by those governing board members was $0.28 million ($0.27 million, 2016-17) 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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Government guarantee fee paid or payable | 28 605 | 26 931 |
| **Total government guarantee fee paid or payable** | **28 605** | **26 931** |

The guarantee fee calculation methodology was revised in 2016 effective 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% for the remainder of the 2017-18 financial year until their maturity.

## NOTE 10 Bad and impaired loans expense

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Bad and impaired loans expense | 70 | 168 |
| Increase in provision for impairment | 2 283 | 2 733 |
| **Total bad and impaired loans expense** | **2 353** | **2 901** |

## NOTE 11 Depreciation and amortisation expense

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Other office and computer equipment | 244 | 201 |
| Leasehold improvements | 313 | 353 |
| Intangible assets | 668 | 727 |
| **Total depreciation and amortisation expense** | **1 225** | **1 281** |

## NOTE 12 Other expenses

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| External auditor’s remuneration | 129 | 173 |
| Insurance | 111 | 103 |
| Office accommodation | 830 | 802 |
| Marketing, product development and advertising | 1 800 | 1 339 |
| Internal audit fees | 184 | 191 |
| Loan administration | 203 | 188 |
| Information technology | 1 274 | 1 490 |
| Consultants’ fees | 126 | 80 |
| Human resources and staff development | 493 | 450 |
| Other | 1 976 | 1 825 |
| **Total other expenses** | **7 126** | **6 641** |

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.** | **2018 $'000** | **NO.** | **2017 $'000** |
|---|---|---|---|---|
| Below $10 000 | 3 | 20 | 5 | 21 |
| Above $10 000 | 2 | 106 | 3 | 59 |
| **Total paid/payable to the consultants engaged** | **5** | **126** | **8** | **80** |

## NOTE 13 Auditor's remuneration

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Audit fees paid/payable to the Auditor-General’s Department relating to work performed under the Public Finance and Audit Act | 129 | 173 |
| **Total audit fees** | **129** | **173** |

The amounts disclosed above are inclusive of GST.

**Other services**

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

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

## NOTE 14 Financial investments designated at fair value through profit or loss

| 14.1 Financial investments designated at fair value through profit or loss | 2018 $'000 | 2017 $'000 |
|---|---|---|
| SAFA Cash Management Fund (Wyatt) | 989 | 826 |
| Breakthrough Loan (shared appreciation component) | 54 226 | 59 822 |
| Shared Equity Option Loan (shared appreciation component) | 135 | - |
| **Total financial investments designated at fair value through profit or loss** | **55 350** | **60 648** |

| 14.2 Maturity profile of HomeStart's financial investments designated at fair value through profit or loss | 2018 $'000 | 2017 $'000 |
|---|---|---|
| At call | 989 | 826 |
| Not longer than three months | - | - |
| Longer than three months and not longer than twelve months | - | - |
| Longer than five years | 54 361 | 59 822 |
| **Total financial investments designated at fair value through profit or loss** | **55 350** | **60 648** |

### 14.3 Risk exposure

Information in relation to HomeStart's exposure to investment price risk is provided in note 33.4.3 and 33.4.4.

## NOTE 15 Financial investments – available-for-sale

| 15.1 Financial investments – available-for-sale | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Bonds | - | - |
| **Total financial investments – available-for-sale** | **-** | **-** |

| 15.2 Reconciliation of available-for-sale investments | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Opening balance at 1 July** | **-** | **10 801** |
| Disposals | - | ( 10 138) |
| Amortisation | - | ( 34) |
| Reclassified to profit on disposal/Change in fair value (recognised directly in equity) | - | ( 629) |
| **Closing balance at 30 June** | **-** | **-** |

## NOTE 16 Loans and advances

### 16.1 Loans and advances

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Primary loans | 1 938 542 | 1 775 230 |
| Subsidised loans | 110 237 | 104 676 |
| **Gross loans and advances** | **2 048 779** | **1 879 906** |
| Fair value adjustment | ( 11 018) | ( 11 571) |
| Deferred loan fee income | ( 9 789) | ( 7 922) |
| Deferred loan fee expense | 3 199 | 2 543 |
| Specific provision for impairment | ( 7 501) | ( 8 992) |
| Unearned income on impaired loans | ( 2 213) | ( 2 544) |
| Collective provision for impairment | ( 9 970) | ( 9 188) |
| **Net loans and advances** | **2 011 487** | **1 842 232** |
| **Specific provision for impaired loans** | | |
| Opening balance | 8 992 | 9 076 |
| Bad debts written-off | ( 2 992) | ( 1 841) |
| Impairment expense | 1 501 | 1 757 |
| **Closing balance** | **7 501** | **8 992** |
| | | |
| **Collective provision for impairment** | | |
| Opening balance | 9 188 | 8 212 |
| Impairment expense | 782 | 976 |
| **Closing balance** | **9 970** | **9 188** |
| **Total provision for impairment** | **17 471** | **18 180** |

### 16.2 Risk exposure

Information in relation to HomeStart's exposure to credit risk for loans and advances is provided in note 33.2.1.

## NOTE 17 Other financial assets

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accrued interest on housing loans and advances | 394 | 253 |
| EquityStart grant receivable | 86 | 159 |
| GST recoverable | 36 | 48 |
| Other | 146 | 160 |
| **Total other financial assets** | **662** | **620** |

## NOTE 18 Intangible assets

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Software at cost | 7 344 | 7 310 |
| Accumulated amortisation | ( 4 268) | ( 3 601) |
| **Total software** | **3 076** | **3 709** |
| | | |
| **Carrying amount at 1 July** | **3 709** | **3 751** |
| Additions | 35 | 685 |
| Amortisation | ( 668) | ( 727) |
| **Carrying amount at 30 June** | **3 076** | **3 709** |

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 2018.

## NOTE 19 Property, plant and equipment

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Leasehold improvements** | | |
| Leasehold improvements at cost (deemed fair value) | 3 143 | 3 122 |
| Accumulated depreciation | ( 916) | ( 602) |
| **Total leasehold improvements** | **2 227** | **2 520** |
| | | |
| **Other office and computer equipment** | | |
| Other office and computer equipment at cost (deemed fair value) | 2 763 | 2 549 |
| Accumulated depreciation | ( 2 241) | ( 1 997) |
| **Total other office and computer equipment** | **522** | **552** |
| **Total property, plant and equipment** | **2 749** | **3 072** |

**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 2016** | **2 817** | **565** | **3 382** |
| Additions – at cost (deemed fair value) | 16 | 189 | 205 |
| Revaluation of make good asset | 40 | - | 40 |
| Disposals – at cost (deemed fair value) | - | ( 75) | ( 75) |
| Disposals – accumulated depreciation | - | 74 | 74 |
| Depreciation and amortisation | ( 353) | ( 201) | ( 554) |
| **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** |

All items of property, plant and equipment that had a fair value at the time of acquisition that was less than $1 million or had an estimated useful life that was less than three years, have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these items are deemed to approximate fair value. These assets are classified in level 3 as there has been no subsequent adjustments to their value, except for management assumptions about the assets' condition and remaining useful life.

## NOTE 20 Other assets

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Prepayments | 480 | 378 |
| **Total other assets** | **480** | **378** |

## NOTE 21 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 million, or had an estimated useful life that was 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 2018**

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

**Fair value measurements at 30 June 2017**

| Recurring fair value measurements | 2017<br>$'000 | Level 3<br>$'000 |
|---|---|---|
| Leasehold improvements | 2 520 | 2 520 |
| Other office and computer equipment | 552 | 552 |
| **Total recurring fair value measurements** | **3 072** | **3 072** |

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2018 and 2017, 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 19, 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 2018 and 2017. 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 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** |

**Reconciliation of Level 3 recurring fair value measurements as at 30 June 2017**

| | Property, plant and equipment $'000 |
|---|---|
| **Opening balance at the beginning of the period** | **3 382** |
| Acquisitions | 205 |
| Revaluation of make good asset | 40 |
| Disposal | ( 1) |
| Depreciation | ( 554) |
| **Carrying amount at the end of the period** | **3 072** |

## NOTE 22 Payables

| **22.1 Payables** | **2018 $'000** | **2017 $'000** |
|---|---|---|
| Creditors | 151 | 372 |
| Accrued administration expenses | 294 | 243 |
| Employment on-costs* | 339 | 379 |
| Accrued interest payable on borrowings | 1 751 | 1 465 |
| Accrued interest payable on derivatives | 70 | 111 |
| Accrued guarantee fee payable | 1 209 | 1 193 |
| Accrued loan manager fees | 397 | 414 |
| **Total payables** | **4 211** | **4 177** |

*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.

### 22.2 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 23 Borrowings

### 23.1 Interest bearing liabilities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Short-term borrowings payable** | | |
| Short-term borrowings | 250 797 | 82 725 |
| **Total short-term borrowings payable** | **250 797** | **82 725** |
| | | |
| **Long-term borrowings payable** | | |
| Long-term borrowings | 1 647 000 | 1 647 000 |
| **Total long-term borrowings payable** | **1 647 000** | **1 647 000** |
| **Total interest bearing liabilities** | **1 897 797** | **1 729 725** |

All HomeStart borrowings are unsecured.

### 23.2 Risk exposure

Information in relation to HomeStart's exposure to liquidity and interest rate risks is provided in notes 33.3 and 33.4.2 respectively.

## NOTE 24 Employee benefits

### 24.1 Employee benefits

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accrued salaries | 178 | 179 |
| Annual leave | 590 | 578 |
| Long service leave | 1 565 | 1 588 |
| **Total employee benefits** | **2 333** | **2 345** |

### 24.2 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.

The Accounting Policy Framework requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has remained at 2.5%. As a result, there is no net financial effect resulting from changes in the bond yield rate.

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

### 24.3 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 25 Provisions

| 25.1 Provision for income tax | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Income tax equivalent payable | 2 907 | 3 479 |
| **Total tax equivalent payable** | **2 907** | **3 479** |

| 25.2 Provision for dividend | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Dividend payable | 212 | 1 423 |
| **Total dividend payable** | **212** | **1 423** |

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 2018, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2016-17). Based on the forecast profit, this amounted to a total dividend of$7.7 million in respect of the year ended 30 June 2018 ($7.1 million, 2016-17). The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2018.

The actual dividend based on the actual after tax profit of $13.2 million was $7.9 million. HomeStart paid a dividend amount of $7.7 million to the Department of Treasury and Finance prior to the end of the financial year ($7.1 million, 2016-17). The amount of dividend payable of $0.2 million is disclosed in note 25 as Provision for dividend. HomeStart will pay this residual dividend amount of $0.2 million in respect of the financial year ended 30 June 2018 in June 2019 ($1.4 million, 2016-17).

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 HomeStart Board in February 2018.

## NOTE 26 Other liabilities

| 26.1 Other liabilities | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Unearned income (EquityStart grant) | 776 | 774 |
| Workers compensation provision* | 61 | 47 |
| Wyatt Benevolent Institution | 2 314 | 2 347 |
| Operating lease liability | 1 406 | 1 499 |
| Make good provision | 400 | 400 |
| City of Salisbury | 4 | 5 |
| **Total other liabilities** | **4 961** | **5 072** |

*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 2018 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.

| 26.2 Unearned income (EquityStart grant) | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Opening balance** | **774** | **770** |
| Amounts received/receivable | 704 | 691 |
| Amount recognised as earned (note 5) | ( 702) | ( 687) |
| **Closing balance** | **776** | **774** |

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

| 26.3 Make good provision | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Opening balance** | **400** | **750** |
| Revaluation of provision | - | 40 |
| Charges against provision | - | ( 390) |
| **Closing balance** | **400** | **400** |

The prior year revaluation of the make good provision amount related to the premises at 153 Flinders Street vacated in July 2015. The make good provision for 153 Flinders Street was fully decommissioned as at 30 June 2017.

## NOTE 27 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 is reclassified from equity to profit or loss.

**Available-for-sale revaluation reserve**

The available-for-sale revaluation reserve was created to recognise the gain or loss on investments that are classified as available-for-sale. A gain or loss on an available-for-sale financial asset is recognised in the available-for-sale revaluation reserve until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is reclassified from equity to profit or loss.

As at 30 June 2018, HomeStart had no available-for sale financial assets.

## NOTE 28 Unrecognised contractual commitments

### 28.1 Capital commitments

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Within one year | - | 145 |
| **Total capital commitments** | **-** | **145** |

Capital expenditure commitments are for upgrades of operational systems.

### 28.2 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:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Within one year | 592 | 569 |
| Later than one year but not longer than five years | 468 | 1 869 |
| **Total expenditure commitments** | **1 060** | **2 438** |

HomeStart's software licence commitments in 2018 and 2017 are in relation to the Front End Loan System, Microsoft software suite and the compliance risk management system.

### 28.3 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:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Within one year | 932 | 917 |
| Later than one year but not longer than five years | 3 755 | 3 690 |
| Later than five years | 2 036 | 3 009 |
| **Total operating lease commitments** | **6 723** | **7 616** |
| Representing: | | |
| Non-cancellable operating leases | 6 723 | 7 616 |
| **Total operating lease commitments** | **6 723** | **7 616** |

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.

### 28.4 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 $79.2 million ($53.8 million, 2016-17). These commitments are expected to be paid in the coming financial year.

## NOTE 29 Contingent assets and liabilities

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

## NOTE 30 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. Quantitative information about transactions and balances between HomeStart and other SA Government entities are disclosed in note 32.

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 for Communities and Social Inclusion
- 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 31 Cash flow reconciliation

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash and Cash equivalents disclosed in the Statement of Financial Position | 3 184 | 4 810 |
| **Balance as per Statement of Cash Flows** | 3 184 | 4 810 |

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Profit for the year** | **13 211** | **14 193** |
| Gain from sale of office and computer equipment | - | ( 1) |
| **Add/less non cash items** | | |
| Amortisation of discount or premium on purchase of available-for-sale financial assets | - | 34 |
| Depreciation and amortisation expense of non-financial assets | 1 225 | 1 281 |
| Unrealised change in fair value of loans | ( 356) | ( 1 009) |
| Realised gains on disposal of available-for-sale financial assets | - | ( 422) |
| Reinvestment of managed funds distribution | - | ( 26) |
| Bad debts written-off | 3 062 | 2 009 |
| Fees applied directly to loan accounts | ( 5 570) | ( 4 904) |
| **Movement in assets and liabilities** | | |
| (Decrease) increase in provision for impairment | ( 709) | 892 |
| (Decrease) increase in deferred loan fee income | 1 867 | 1 412 |
| (Increase) decrease in deferred loan fee expense | ( 656) | ( 232) |
| (Decrease) increase in fair value adjustment | ( 553) | ( 1 597) |
| (Decrease) increase in payables | ( 161) | ( 565) |
| (Decrease) increase in provision for employee benefits | ( 12) | ( 22) |
| (Decrease) increase in provision for restructure | - | ( 145) |
| (Decrease) increase in other liabilities | 2 | 4 |
| (Decrease) increase in income tax equivalents payable | ( 572) | 921 |
| (Increase) decrease in financial and other assets | ( 42) | 348 |
| **Net cash provided by operating activities** | **10 736** | **12 171** |

### 31.3 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** |

## NOTE 32 Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty is an entity within SA Government as at the reporting date, classified according to their nature. Transactions with SA Government entities below the threshold of $100 000 have been included with the non-government transactions, classified according to their nature.

| Note | | SA Government | | Non-SA Government | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| | **Income** | | | | | | |
| 4 | Interest income | - | - | 101 346 | 96 345 | 101 346 | 96 345 |
| 5 | Other income | | | | | | |
| | Fees and charges | - | - | 2 776 | 2 985 | 2 776 | 2 985 |
| | Managed funds distribution | - | 26 | - | - | - | 26 |
| | Unrealised gain in fair value of loans | - | - | 355 | 1 009 | 355 | 1 009 |
| | Realised gain in fair value of loans | - | - | 722 | 468 | 722 | 468 |
| | EquityStart grant | 702 | 687 | - | - | 702 | 687 |
| | Community Service Obligation (CSO) subsidy | 6 576 | 6 248 | - | - | 6 576 | 6 248 |
| | Other income | - | - | 255 | 1 051 | 255 | 1 051 |
| | Net gain/(loss) from disposal of assets | - | - | - | 1 | - | 1 |
| | **Total income** | 7 278 | 6 961 | 105 454 | 101 859 | 112 732 | 108 820 |
| | **Expenses** | | | | | | |
| 4 | Interest expense on SAFA borrowings | ( 38 647) | ( 35 569) | - | - | ( 38 647) | ( 35 569) |
| 10 | Bad and impaired loans expense | - | - | ( 2 353) | ( 2 901) | ( 2 353) | ( 2 901) |
| | Loan manager fees | - | - | ( 3 876) | ( 4 330) | ( 3 876) | ( 4 330) |
| 6 | Employee benefits expenses | ( 521) | ( 484) | ( 11 506) | ( 10 407) | ( 12 027) | ( 10 891) |
| 11 | Depreciation and amortisation expenses | - | - | ( 1 225) | ( 1 281) | ( 1 225) | ( 1 281) |
| 12 | Other expenses | | | | | | |
| | External auditor remuneration | ( 129) | ( 173) | - | - | ( 129) | ( 173) |
| | Office accommodation | - | - | ( 830) | ( 802) | ( 830) | ( 802) |
| | Marketing, product development and advertising | - | - | ( 1 800) | ( 1 339) | ( 1 800) | ( 1 339) |
| | Internal audit fees | - | - | ( 184) | ( 191) | ( 184) | ( 191) |
| | Loan administration | - | - | ( 203) | ( 188) | ( 203) | ( 188) |
| | Information technology | - | - | ( 1 274) | ( 1 490) | ( 1 274) | ( 1 490) |
| | Insurance | - | - | ( 111) | ( 103) | ( 111) | ( 103) |
| | Consultant fees | - | - | ( 126) | ( 80) | ( 126) | ( 80) |
| | Human resources and staff development | - | - | ( 493) | ( 450) | ( 493) | ( 450) |
| | Other | - | - | ( 1 976) | ( 1 825) | ( 1 976) | ( 1 825) |
| 9 | Government guarantee fee | ( 28 605) | ( 26 931) | - | - | ( 28 605) | ( 26 931) |
| | **Total expenses** | ( 67 902) | ( 63 157) | ( 25 957) | ( 25 387) | ( 93 859) | ( 88 544) |

| Note | | SA Government | | Non-SA Government | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2018<br>$'000 | 2017<br>$'000 | 2018<br>$'000 | 2017<br>$'000 | 2018<br>$'000 | 2017<br>$'000 |
| | **Financial assets** | | | | | | |
| | Cash and cash equivalents | - | - | 3 184 | 4 810 | 3 184 | 4 810 |
| 14 | Financial investments at fair value through profit or loss | 989 | 826 | 54 361 | 59 822 | 55 350 | 60 648 |
| 15 | Financial investments available for sale | - | - | - | - | - | - |
| 16 | Loans and advances | - | - | 2 011 487 | 1 842 232 | 2 011 487 | 1 842 232 |
| 17 | Other financial assets | 86 | 167 | 576 | 453 | 662 | 620 |
| 20 | Other assets | - | - | 480 | 378 | 480 | 378 |
| | **Total financial assets** | 1 075 | 993 | 2 070 088 | 1 907 695 | 2 071 163 | 1 908 688 |
| | **Financial liabilities** | | | | | | |
| 22 | Payables | ( 3 207) | ( 3 004) | ( 1 004) | ( 1 173) | ( 4 211) | ( 4 177) |
| 33.2.2 | Derivative financial instruments | ( 2 377) | ( 3 847) | - | - | ( 2 377) | ( 3 847) |
| 23 | Short term borrowings | ( 250 797) | ( 82 725) | - | - | ( 250 797) | ( 82 725) |
| 24 | Employee benefits | - | - | ( 2 333) | ( 2 345) | ( 2 333) | ( 2 345) |
| 25 | Income tax equivalents payable | ( 2 907) | ( 3 479) | - | - | ( 2 907) | ( 3 479) |
| 25 | Provision for dividend | ( 212) | ( 1 423) | - | - | ( 212) | ( 1 423) |
| 26 | Other liabilities | ( 776) | ( 774) | ( 4 185) | ( 4 298) | ( 4 961) | ( 5 072) |
| 23 | Long term borrowings | (1 647 000) | (1 647 000) | - | - | (1 647 000) | (1 647 000) |
| | **Total financial liabilities** | (1 907 276) | (1 742 252) | ( 7 522) | ( 7 816) | (1 914 798) | (1 750 068) |

## NOTE 33 Financial risk management

### 33.1 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.

### 33.2 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.

#### 33.2.1 *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:

| | 2018 | 2017 |
|---|---|---|
| **Past due but not impaired** | **$'000** | **$'000** |
| Gross carrying value | 64 269 | 62 692 |
| Fair value of collateral | 101 133 | 100 224 |
| | | |
| **Impaired** | | |
| Gross carrying value, before specific provision for impairment | 46 106 | 48 004 |
| Unearned income on impaired loans | ( 2 213) | ( 2 544) |
| Specific provision for impairment | ( 7 501) | ( 8 992) |
| **Net impaired loans and advances** | **36 392** | **36 468** |
| Fair value of collateral | 49 887 | 50 690 |

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% (23%, 2016-17) 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% (34%, 2016-17) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies as well as obtaining and managing collateral, as described above.

Higher LVR loans

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

Loan Provision Charge

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

**(c)** *Credit risk measurement*

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

This operational measurement can be contrasted with the impairment allowances required by AASB 139, which are based on the existence of objective evidence of impairment at the reporting date rather than expected losses (note 2.10.3 and note 16).

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

HomeStart has designated 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 $2 011.5 million ($1 842.2 million, 2016-17).

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

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

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

| | **2018 $'000** | **2017 $'000** |
|---|---|---|
| **Not impaired** | | |
| **Neither renegotiated nor past due** | | |
| Low risk | 1,344,473 | 1 190 090 |
| Moderate risk | 503,162 | 490 813 |
| High risk | 85,385 | 81 931 |
| **Gross loans and advances neither renegotiated nor past due** | **1 933 020** | **1 762 834** |
| **Renegotiated (1)** | | |
| Low risk | 3 527 | 4 826 |
| Moderate risk | 993 | 882 |
| High risk | 864 | 668 |
| **Gross loans and advances renegotiated** | **5 384** | **6 376** |
| **Past due but not impaired (2)** | | |
| Low risk | 26 396 | 24 729 |
| Moderate risk | 21 438 | 20 825 |
| High risk | 16 435 | 17 138 |
| **Gross loans and advances past due but not impaired** | **64 269** | **62 692** |
| **Total not impaired** | | |
| Low risk | 1 374 396 | 1 219 645 |
| Moderate risk | 525 593 | 512 520 |
| High risk | 102 684 | 99 737 |
| **Gross loans and advances not impaired** | **2 002 673** | **1 831 902** |

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Impaired (3)** | | |
| Low risk | 17 265 | 14 690 |
| Moderate risk | 18 228 | 20 636 |
| High risk | 10 613 | 12 678 |
| *Gross impaired loans and advances* | *46 106* | *48 004* |
| Unearned income on impaired loans | ( 2 213) | ( 2 544) |
| Specific provision for impairment | ( 7 501) | ( 8 992) |
| **Impaired loans and advances after provision and unearned income** | **36 392** | **36 468** |
| **Total** | | |
| Low risk | 1 391 661 | 1 234 335 |
| Moderate risk | 543 821 | 533 156 |
| High risk | 113 297 | 112 415 |
| *Gross loans and advances* | *2 048 779* | *1 879 906* |
| Fair value adjustment | ( 11 018) | ( 11 571) |
| Deferred loan fee income | ( 9 789) | ( 7 922) |
| Deferred loan fee expense | 3 199 | 2 543 |
| Unearned income on impaired loans | ( 2 213) | ( 2 544) |
| Specific provision for impairment | ( 7 501) | ( 8 992) |
| Collective provision for impairment | ( 9 970) | ( 9 188) |
| **Net loans and advances** | **2 011 487** | **1 842 232** |

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| <30 days | 47 772 | 46 357 |
| 30 – 59 days | 9 990 | 8 724 |
| 60 – 89 days | 2 007 | 3 060 |
| 90 – 179 days | 2 481 | 1 976 |
| >179 days | 2 019 | 2 575 |
| **Total** | **64 269** | **62 692** |

**(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 $5.4 million as at 30 June 2018 ($6.4 million, 2016-17).

**(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.

### 33.2.2 *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 2018 and 30 June 2017, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Derivative financial instruments** | **( 2 377)** | **( 3 847)** |
| Swap income receivable | 175 | 110 |
| Swap expense payable | ( 245) | ( 221) |
| **Net payable (note 22)** | **( 70)** | **( 111)** |

Further information in relation to derivatives is disclosed in notes 33.3.3 and 33.4.2.

### 33.3 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.

### 33.3.1 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.

### 33.3.2 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 $2 105 million as at 30 June 2018 ($2 105 million, 2016-17).

### 33.3.3 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%, 2016-17) of total debt outstanding.

| **% of debt subject to refinancing in the next 12 month period** | **2018 %** | **2017 %** |
|---|---|---|
| At 30 June | 13.20 | 4.80 |
| Average for the period | 15.50 | 30.20 |
| Maximum for the period | 27.20 | 41.20 |
| Minimum for the period | 5.00 | 4.80 |

Temporary ALCO approval was granted in September 2016 to exceed the 40% limit for short term funding until maturity in May 2017 of the 2017 debt instruments included as short term.

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

| **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** |

| 2017 | 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 | 4 177 | - | - | - | - | 4 177 | **4 177** |
| Borrowings | 87 551 | 9 894 | 44 044 | 1 564 306 | 224 565 | 1 930 360 | **1 729 725** |
| Other financial liabilities | - | 1 740 | 3 162 | - | - | 4 902 | **4 902** |
| **Total liabilities (contractual maturity dates)** | **91 728** | **11 634** | **47 206** | **1 564 306** | **224 565** | **1 939 439** | **1 738 804** |

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 |
|---|---|---|---|---|---|---|---|
| **2018** | ( 107) | ( 242) | ( 968) | ( 1 394) | ( 29) | ( 2 740) | ( 2 377) |
| **2017** | ( 184) | ( 364) | ( 1 429) | ( 2 469) | ( 206) | ( 4 652) | ( 3 847) |

Further information in relation to derivatives is disclosed in notes 33.2.2 and 33.4.2.

(c) *Off balance sheet*

The periods of payment of unrecognised contractual commitments are disclosed in note 28.

**33.4 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.

**33.4.1 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.

**33.4.2 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 2018, HomeStart had floating/fixed swaps with a notional value of $255.5 million ($157.5 million, 2016-17) with fixed rates varying between 1.49% and 6.96% (1.49% and 7.21%, 2016-17).

Periods to maturity of the interest rate swap contracts are disclosed at note 33.3.3(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 139 *Financial Instruments: Recognition and Measurement*.

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Statement of Comprehensive Income immediately. In the year ended 30 June 2018, a $1.5 million gain ($3.1 million gain, 2016-17) was recognised in equity during the period.

Further information in relation to derivatives is disclosed in notes 33.2.2.

### 33.4.3 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 as fair value through profit or loss.

(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.

| **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** |

| **2017** | **Carrying amount $'000** | **-10%** | **10%** |
|---|---|---|---|
| SAFA Cash Management Fund (Wyatt) | 826 | ( 83) | 83 |
| **Total increase/(decrease) in profit before tax and equity** | **826** | **( 83)** | **83** |

### 33.4.4 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 2.10.2).

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.

(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 14).

(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.

| | 2018 Carrying amount $'000 | -5% | 5% | 2017 Carrying amount $'000 | -5% | 5% |
|---|---|---|---|---|---|---|
| Breakthrough Loan | 54 226 | ( 3 356) | 3 525 | 59 822 | ( 3 658) | 3 854 |
| Shared Equity Option Loan | 135 | ( 2) | 21 | - | - | - |
| **Total increase/(decrease) in profit before tax and equity** | | **( 3 358)** | **3 546** | | **( 3 658)** | **3 854** |

### 33.4.5 Currency risk

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

## NOTE 34 Fair value and categorisation of financial instruments

### 34.1 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 | 2018 Carrying value $'000 | 2018 Fair value $'000 | 2017 Carrying value $'000 | 2017 Fair value $'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | N/A | 3 184 | 3 184 | 4 810 | 4 810 |
| Investments | Fair value through profit or loss | 55 350 | 55 350 | 60 648 | 60 648 |
| Loans and advances [1] | Amortised cost | 2 011 487 | 2 010 557 | 1 842 232 | 1 842 304 |
| Other financial assets | Financial assets (at cost) | 662 | 662 | 620 | 620 |
| **Total financial assets** | | **2 070 683** | **2 069 753** | **1 908 310** | **1 908 382** |
| **Financial liabilities** | | | | | |
| Borrowings [2] | Financial liabilities (amortised cost) | 1 897 797 | 1 901 876 | 1 729 725 | 1 736 108 |
| Other liabilities | Financial liabilities (amortised cost) | 4 961 | 4 961 | 5 072 | 5 072 |
| Derivative financial instruments | Hedge accounting (fair value through equity) | 2 377 | 2 377 | 3 847 | 3 847 |
| Payables | Financial liabilities (at cost) | 4 211 | 4 211 | 4 177 | 4 177 |
| Income tax equivalents payable | Financial liabilities (at cost) | 2 907 | 2 907 | 3 479 | 3 479 |
| Provision for dividend | Financial liabilities (at cost) | 212 | 212 | 1 423 | 1 423 |
| **Total financial liabilities** | | **1 912 465** | **1 916 544** | **1 747 723** | **1 754 106** |
| **Net financial assets** | | **158 218** | **153 209** | **160 587** | **154 276** |

[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 2018.

**34.2 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 2.10.2 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.

| | 2018<br>% | 2017<br>% |
|---|---|---|
| Valuation determined using an automated method (Hometrack Australia) | 93.90% | 93.63 |
| Valuation provided by the Valuer-General | 5.63% | 6.37 |
| Other valuations used | 0.47% | - |

(e) *Borrowings*

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

**34.3 Hierarchical classification of financial assets measured at fair value**

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

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

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

| **2018** | **Level 1<br>$'000** | **Level 2<br>$'000** | **Level 3<br>$'000** | **Total<br>$'000** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| SAFA Cash Management Fund (Wyatt) | - | 989 | - | 989 |
| Breakthrough Loan (shared appreciation component) | - | - | 54 226 | 54 226 |
| Shared Equity Option Loan (shared appreciation component) | - | - | 135 | 135 |
| **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)** |

| **2017** | **Level 1<br>$'000** | **Level 2<br>$'000** | **Level 3<br>$'000** | **Total<br>$'000** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| SAFA Cash Management Fund (Wyatt) | - | 826 | - | 826 |
| Breakthrough Loan (shared appreciation component) | - | - | 59 822 | 59 822 |
| **Total financial assets measured at fair value** | **-** | **826** | **59 822** | **60 648** |
| **Financial liabilities measured at fair value** | | | | |
| Derivative financial instruments | - | ( 3 847) | - | ( 3 847) |
| **Total financial liabilities measured at fair value** | **-** | **( 3 847)** | **-** | **( 3 847)** |

**34.4 Reconciliation of Level 3 fair value measurements**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Fair value at 1 July** | **59 822** | **62 421** |
| Breakthrough Loan settlements | 965 | 4 588 |
| Breakthrough Loan discharges | ( 6 916) | ( 8 196) |
| Shared Equity Option Loan settlements | 135 | - |
| Unrealised change in fair value of loans (note 5) | 355 | 1 009 |
| **Fair value at 30 June** | **54 361** | **59 822** |

Note 33.4.4(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 35 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 36 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 37 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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**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 2018.

## 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 2018, 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 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information for administered items
- 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

- 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**
19 September 2018

# HomeStart
Finance

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HomeStart FINANCE