Government of South Australia

HomeStart FINANCE

Annual Report

2016-17

Contents

30 September 2017

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

Dear Minister,

HomeStart Finance 2016-17 Annual Report

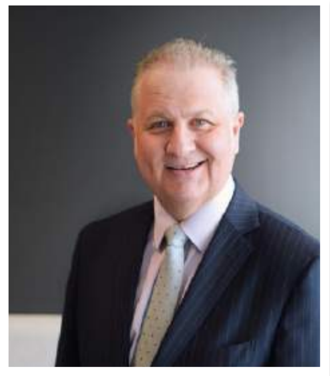
It gives me great pleasure to present a summary of HomeStart's achievements over the 2016-17 financial year.

HomeStart assisted 1674 households to purchase their own home, contributing to the State Government's strategic priority to create an affordable place to live. The role HomeStart plays as a stepping stone for people to advance along the housing continuum is highlighted by the fact that the majority of our new customers would not have been able to secure finance elsewhere.

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

Yours sincerely,

Jim Kouts
Chair
HomeStart Finance



Performance and growth

Three years ago, I reported on the challenging business environment for HomeStart Finance given historically low interest rates. At the time, our focus was on setting and executing a clear strategy, ensuring we did not operate with short-term thinking.

This careful consideration of how best to grow the business means that I am pleased to report that the financial performance of the business in fiscal year 2017 is the best in the history of HomeStart.

Most importantly, 1674 new housing starts were delivered by HomeStart with total lending for the year at $432 million.

This is an outstanding result by the senior management team and a committed workforce focused on getting more South Australians into their own home.

The financial targets established by the South Australian Government were well exceeded, delivering a record profit of $20.3 million equating to a return on equity of 12.57%. This result is built on the challenges of a sustained low interest rate environment that required strategic changes in HomeStart's distribution model, as well as the implementation of a number of internal process and productivity improvements. The total payments to Government for the financial year amounted to $41.3 million - a return on capital invested of 25.6%. Total returns to Government now exceed $550 million demonstrating the sustained economic value HomeStart has made to the state over the past 27 years. These results, combined with the fact that nearly 90% of our customers were unable to secure finance from a mainstream lender at the time of application, have reinforced HomeStart's position as a leading financial institution within South Australia and a continuing source of value for our community.

As a purpose-led and driven organisation, it is our people's unstinting commitment to our reason for being of "making home ownership a reality for more people in more ways" that brings about real change in the housing landscape within South Australia.

A challenging market and year

In 2016-17, the South Australian housing market remained relatively stable, with Adelaide's median house price increasing by 2.94% compared to the same period last year, and peaking at $455 000 in the June quarter. Economic growth remained below trend culminating in the historically low cash rate level of 1.50% since August 2016. Regional South Australia continued to experience subdued activity with unemployment and underemployment again proving challenging for the South Australian economy, with an unemployment rate of 6.7% in June 2017, well above the national average of 5.6%.

Despite these conditions and notwithstanding that housing affordability is a key issue across Australia at the moment, South Australia continues to be in a better housing affordability position compared to other state capitals. The average house price in South Australia is $455 000 compared to the average house price in Sydney of $900 000 and Melbourne's $650 000.

Further to the housing affordability issue, research conducted by the University of Adelaide during the year concluded that home buyers in South Australia have an edge over other states thanks to the existence of a government-backed, low-deposit lender such as HomeStart. The report by the university's International Centre for Financial Services states HomeStart's presence in certain suburbs has increased home ownership rates by up to 8% compared to those in equivalent New South Wales suburbs, and by up to 6% compared to those in equivalent Victorian suburbs. The report found that HomeStart has a substantial presence in council areas such as Salisbury, Playford and Onkaparinga, and without that presence, home loans to households in low to middle income suburbs "is unlikely to be available" to many borrowers. This research further reinforces the economic and social value that HomeStart contributes to South Australia.

The value creation of HomeStart is further reinforced with the knowledge that we assisted one in six South Australian first home buyers into home ownership this past year. In addition, during the year HomeStart entered into a number of partnerships/relationships with builders/developers aimed at making the home ownership journey simpler and more affordable for first home buyers.

It would also be remiss not to mention the Government-initiated scoping study into the potential sale of a portion of the HomeStart loan book, which was undertaken this financial year.

Whilst the Board recognises the rights of the Government as HomeStart's shareholder to investigate options which optimise the financial returns for the state, the process is a demanding one which has the potential to distract management and unsettle staff. It is pleasing to have that process concluded.

The outcome of the study, which determined not to move to the next step in a potential sale process, is one which the Board fully supports as it enables HomeStart to continue to contribute in a positive and constructive manner to the state's economy as it has for the past 27 years.

The Board and the year ahead

This coming year brings to a conclusion the goals and aspirations of HomeStart's Strategic Plan 2015-18. This plan provided our roadmap to promote and extend HomeStart's relevance to a new generation of South Australian home buyers and introduce its capabilities to a wider range of business partners. In the coming year, the Board will be looking to set the strategy for the next three-year planning cycle 2018-2021. We will develop a plan which not only meets the needs of the shareholder on behalf of the South Australian community, both from a financial and social perspective, but also ensures the long-term sustainability of HomeStart in a rapidly changing environment.

We will continue to invest in technology, and in fact a key platform for the coming three years will be to replace and/or update a number of legacy computer systems to ensure we can be agile in development, and innovative in meeting the needs of our customers.

Finally, this year has seen a number of changes to members of our Board and I would like to recognise the contributions of Roseanne Healy and Maria Palumbo during their time with us – their efforts and commitment to HomeStart have been greatly appreciated. I welcome Carmel Zollo and Shanti Berggren to the Board and look forward to them bringing and sharing their knowledge and experience to our boardroom. The Board continues to be passionate about the HomeStart business and we look forward to working with management to oversee the next phase of our strategy, maintaining momentum across the business and welcoming more South Australians into home ownership.

Jim Kouts
Chair

At the heart of HomeStart's remarkable success are our employees, and I offer my sincerest thanks for their unwavering commitment throughout the year. Without their continued energy and dedication, as well as care and compassion, we wouldn't hold the important position that we do in the South Australian housing landscape.

Outstanding performance

The last 12 months has been one of the most successful in HomeStart's 27 years of operation, helping 1674 South Australians into home ownership and funding $432 million worth of loans. This was a strong increase on the 1599 loans and $393 million in settlements achieved in 2015-16. Our net profit before tax of $20.3 million was a record for HomeStart coming on the back of the increase in new business, growth of the loan portfolio and a number of internal initiatives focused on improving our efficiency.

The current value of our loan portfolio sits at $1.9 billion, with the value of all loans settled since 1989 equating to more than $7 billion. Considering nearly 90% of our customers wouldn't have obtained a loan through a mainstream lender at the time of application, it demonstrates the significant economic and community impact our organisation has made since its inception.

These results, achieved in a housing market that continues to be challenging, demonstrate the important role we play in helping more South Australians to break into home ownership sooner. While the South Australian housing landscape is somewhat more positive than elsewhere in the country, it remains challenging nonetheless. This ensures HomeStart is more relevant than ever, highlighted by the fact that one in six first home buyers (approximately 16%) purchased a home through us in the last 12 months, up from about 12% in previous years.

Another area of outstanding performance during the year has been the consistency associated with our quarterly Net Promoter Score (NPS) results. NPS, which is a measure of customer satisfaction levels, shows that our commitment to customer service and customer satisfaction is highly valued. Our most recent score of +71% is unparalleled in financial services and is the highest score HomeStart has ever received.

Our people and culture

Our people are driven by a very strong sense of purpose as everyone strives to achieve our reason for being, "making home ownership a reality for more people in more ways". We continue to focus on making HomeStart an enjoyable and attractive place to work, where we strive to create an achievement culture and where our people bring the best of themselves to work each day.

Our culture is integral to how we continue to perform as an organisation, but it does not just happen and requires ongoing focus to continue to thrive. The formation of our second Culture Council, made up of advocates from across the business, will play an important role in helping achieve this. This past year saw us continue to measure our culture through the Human Synergistic OCI/OEI circumplex and it is pleasing to report the continued shift to the 'blue' constructive styles of achievement, self-actualising, humanistic-encouraging and affiliative behaviours.

During the year, we also introduced a wellbeing program, which is designed to support our people find total wellbeing across five core areas – social, community, financial, physical and career. I look forward to witnessing the important impact this makes to everyone over the coming years.

Employee engagement remains ahead of industry standards and continues to rise, with our employee engagement survey score of 82.54% in May 2017 showing an increase on our January 2016 score of 78.38%. This compares favourably to an average score of 77.34% across Australian financial institutions who complete similar surveys, and a global corporate average score of 71.22%. Whilst the improvement over the period was most satisfying, it was noteworthy that 92% of our people responded to the survey.

Products and channels

Building on strong performance in recent years, the HomeStart Graduate Loan continued to experience outstanding growth on the back of an expansion of its eligibility criteria in 2014. A total of 547 Graduate Loans were settled in 2016-17, an increase of 17% in both the number and value of loans compared to the previous financial year. I'm proud of the role this product plays in assisting to retain skilled and qualified South Australians in our state through access to housing finance and ultimately home ownership.

Construction lending was another highlight of the 2016-17 financial year. We financed more than $100 million of new housing construction, up by 28% on the previous year. Most importantly, this level of activity created more than 300 associated jobs in South Australia that wouldn't have otherwise occurred. This figure shows the important role that a healthy level of housing construction can provide to both the economy and community.

We continued to refine our retail offering during the last year, strengthening our offices in the north, south and central Adelaide, while also expanding our broker network. This investment has paid off, with the number of loans originating through the broker channel continuing to grow.

A total of 43% of all our loans are now written via brokers, up from 33% the previous year. Pleasingly, our internal channels now account for 35% of all loans written.

While our primary focus is on helping people into home ownership, we are also committed to ensuring they remain in their homes. Our arrears levels were at the lowest level we have seen in many years, and is a credit to the challenging, yet empathetic work being done by our Customer Assist Team.

Our community

HomeStart Finance has always been strongly connected to the community, and this continued in 2016-17 through activities such as seminars, corporate volunteering, sponsorships and donations.

We maintained our work with the Australian Refugee Association in supporting migrant communities to achieve home ownership and find their feet in South Australia.

Our free public home buyer seminars were again popular, with more than 330 people attending the five seminars conducted throughout 2016-17. Seminars were also delivered specifically to migrant groups and seniors organisations.

With strong collaboration from our Marketing Team and creative advertising agency, we launched our new advertising campaign with two new commercials, which have a strong emphasis on promoting home ownership to young families and women in particular. With a touch of humour and positive messaging, the new campaign received great feedback and was rolled out across TV, cinema, outdoor and digital media.

Looking forward

As we move into the final year of our 2015-18 Strategic Plan, I'm proud of the continued impact and growth we've had in the South Australian housing market. I believe we've been successful in extending our influence and relevance to a new generation of home buyers, as well as throughout the broader industry.

I'd like to recognise the Chair and Board who provided support and direction for the organisation throughout the year. Our Board's decision making balances the needs of the organisation with the realities and pressures of the market. The Board was also strongly supportive of the HomeStart team, especially during the HomeStart scoping study conducted earlier in the year.

Finally, the Executive Team continues to demonstrate resilience, striving to ensure HomeStart has a strong and sustainable future whilst also ensuring more South Australians experience the financial security and social wellbeing associated with home ownership. We all have much to look forward to in the future.

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 27 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 strategic priorities

Reporting to the Minister for Housing and Urban Development, we contribute to the State Government's strategic priorities to help make a difference to the future prosperity of South Australia.

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

HomeStart specifically contributes to 'Building a Stronger South Australia' by creating affordable places to live through providing innovative home loans that enable customers to buy a place of their own. 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

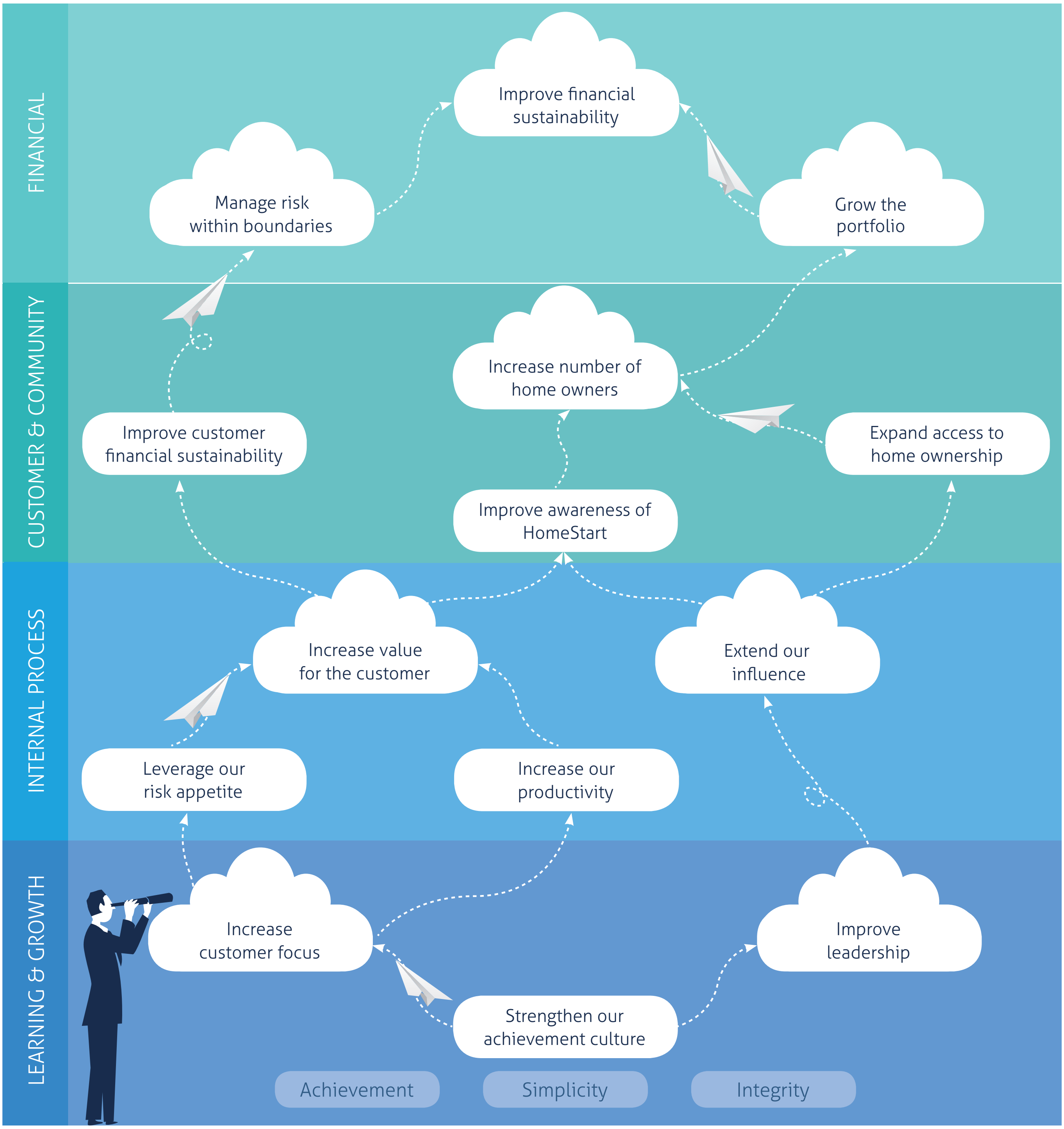
» grow our income faster than expenses

» 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 27 years we have helped more than 68,780 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 111 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 1674 customers in 2016-17:

- 821 were first home buyers
- 57% were leaving private rental
- 36% bought homes in the northern fringes of metropolitan Adelaide, while 22% bought homes in the country
- 324 built new homes, representing 19.4% of new lending
- 91.2% of the portfolio were in advance of their repayments, an increase from last year
- the average loan size was $257 321, a 3.4% increase on last financial year
- the average purchase price was $270 668
- more than 89.4% 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 2016-17. Data from CoreLogic showed a 2.42% increase in Adelaide's median house price with none of the significant increases seen in Melbourne and Sydney. Regional South Australia continued to experience subdued activity, while unemployment again proved challenging for the South Australian economy.

Despite challenging conditions at the commencement of the year, there were many opportunities. The ongoing First Home Owner Grant for new dwellings and the State Government's support of urban infill projects gave an incentive for first home buyers to build. As the major lenders tightened their lending policies, the need for HomeStart's unique offering became even more evident and HomeStart settled 1674 loans – an increase of 4.7% 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 3364 graduates buy a home with a 3% deposit for established homes, or a 6% deposit to build. With the Graduate Loan available to graduates with Certificate III and IV qualifications, HomeStart has seen significant growth in this product. A total of 547 Graduate Loans were settled in 2016-17, an increase of 17% in value and 19% 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.

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 33 Low Deposit Loans were settled this financial year.

Breakthrough Loan

The Breakthrough Loan is combined with another HomeStart loan under a shared appreciation arrangement to enable home buyers to afford a more expensive home or to refinance after a change in circumstances.

This means customers can borrow up to 30% more or reduce their ongoing loan repayments by sharing a portion of their home's change in value with HomeStart when the property is sold or refinanced.

A total of 36 Breakthrough Loans were written in 2016-17.

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 2016-17, the number of Advantage Loan settlements increased by more than 2% compared to the previous financial year, totalling $15.2 million in value.

Since 1993, the Advantage Loan has helped 12 602 households achieve their home ownership aspirations. A total of 527 Advantage 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.

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 Trust is a not-for-profit organisation dedicated to reducing financial disadvantage and improving the quality of life for South Australians. Since 2007, 314 customers have accessed the Wyatt Loan. In 2016-17, a total of 38 Wyatt Loans were settled to the value of $344 729.

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. This can assist renters to cover rental costs and loan repayments at the same time. Construction lending in 2016-17 was again strong with a total of 324 construction loans settled.

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 87 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 590 loans were settled for $156 million in the 2016-17 financial year via the HomeStart offices, including 211 loans valued at $62 million via the city and 379 loans valued at $93 million via the south and north offices combined.

The broker channel has continued to grow with a focus on improving efficiency and service. During 2016-17, brokers settled 720 new loans worth $197 million, representing over 43% of new lending and an increase of 38% compared to last financial year. HomeStart now has 520 accredited brokers that can offer a range of loans, with 174 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 2016-17, the corporate website had 232 901 users, representing an 8% increase on the previous year. A consistent content strategy for the MyStart blog contributed to this with 63 831 users. The majority of users came via their mobile device (55%) followed by desktop (36%) and tablet (9%).

HomeStart's Facebook community of potential and current customers increased from 8 651 followers to 10 365, which is a 20% increase. Further, 15 657 users went to the HomeStart corporate website from Facebook.

In the market, HomeStart launched a new marketing campaign - 'Future You'. 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 Low Deposit Loan and the Graduate Loan were a focus to continue to raise awareness and consideration amongst the first home buyer segment.

2016-17 also saw the introduction of a new target segment, the 'young families'. The marketing strategy aimed to shift HomeStart brand associations towards a smart option for home buyers to get into their own home sooner.

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

HomeStart primarily receives enquiries via the Sales Initiation Call Centre Team. During 2016-17, there were 7 330 new phone enquires received. This resulted in 30% of all loan settlements within the financial year.

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 2016-17, HomeStart's NPS score reached +71% which is the highest score achieved by the organisation to date. This dramatically exceeds both internal targets and the industry average and represents a 20 point increase from the same time last year.

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 10 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. Five seminars were held in 2016-17 attracting 334 attendees. Seminars were also delivered specifically to migrant groups and seniors organisations such as The Catalyst Foundation, Victor Harbor Probus Club, Uniting Care Wesley, Lutheran Community Care, Australian Refugee Association, and the South Australian Bangladeshi Community Association attracting 204 attendees.

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 2016-17, HomeStart helped the following organisations by donating or sponsoring their causes:

- Adelaide & Metropolitan Malayalee Association
- Adelaide Rotary
- Adelaide West Special School
- African Communities Council SA
- Australian Refugee Association (ARA)
- Bangladeshi Association
- Bhutanese Association of SA
- ECH Incorporated
- Leukaemia Foundation
- Port Adelaide District Baseball Club
- Riding for the Disabled Association SA (Northern Area Centre)
- Rotary Club of Salisbury
- SA/NT Rostrum Incorporated
- South Sudan Equatorians Communities Association in SA (SSECASA)
- TAFE SA
- Technical Aid to the Disabled (TADSA)
- The Association of the Burundian Community of SA

Learning & Growth

Our people

Our people are at the heart of HomeStart's success. In 2016-17, investment in their development continued, which in turn supports and enhances the customer experience.

HomeStart continues to strengthen a values-aligned achievement culture and attained an employee engagement score at a globally recognised and highly engaged benchmark. Significant progress has been made in 2016-17, with HomeStart's employee engagement increasing from 78.38% in January 2016 to 82.54% in May 2017. This compares to an average score of 77.34% across Australian financial institutions who complete similar surveys, and a global corporate average score of 71.22%.

During the year, performance and development initiatives included:

- The formation of a second Culture Council as culture ambassadors and advocates across the business.
- Sales training across all sections of the organisation with a particular focus on customer centricity both internally and externally.
- 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 third 'BluePrint' self-leadership program, providing an additional 15 HomeStart employees with the opportunity to discover their strengths and passions, and enable them to give their best contribution to their work and life.

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
- A wellbeing program which incorporates all elements of a healthy life based on social, community, financial, physical and career wellbeing.

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

Learning and growth statistics

Documented review of individual performance management

Employees with	% of workforce
A review within the past 12 months	94.4
A review older than 12 months	0.0
No review*	5.6

*new employees at HomeStart and/or casual

Average days leave per full-time equivalent employee

Leave type	2016-17	2015-16	2014-15	2013-14
Sick leave	5.4	5.8	5.2	4.3
Family carer's leave	1.3	1.2	1.3	1.4
Miscellaneous special leave	0.0	0.5	0.6	0.7

Number of employees by age bracket and gender

Age bracket	Male	Female	Total	% of total workforce	% Workforce benchmark*
15-19	0	0	0	0.0	5.5
20-24	1	1	2	1.9	9.7
25-29	3	2	5	4.7	11.2
30-34	3	3	6	5.6	10.7
35-39	6	7	13	12.1	9.6
40-44	5	15	20	18.7	11.4
45-49	9	6	15	14.0	11.1
50-54	11	7	18	16.8	11.4
55-59	10	7	17	15.9	9.1
60-64	4	4	8	7.5	6.7
65+	3	0	3	2.8	3.6
TOTAL	**55**	**52**	**107**	**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.

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)	617	5.8
Total leadership and management development expenditure	206	2.0

Total number of employees with disabilities

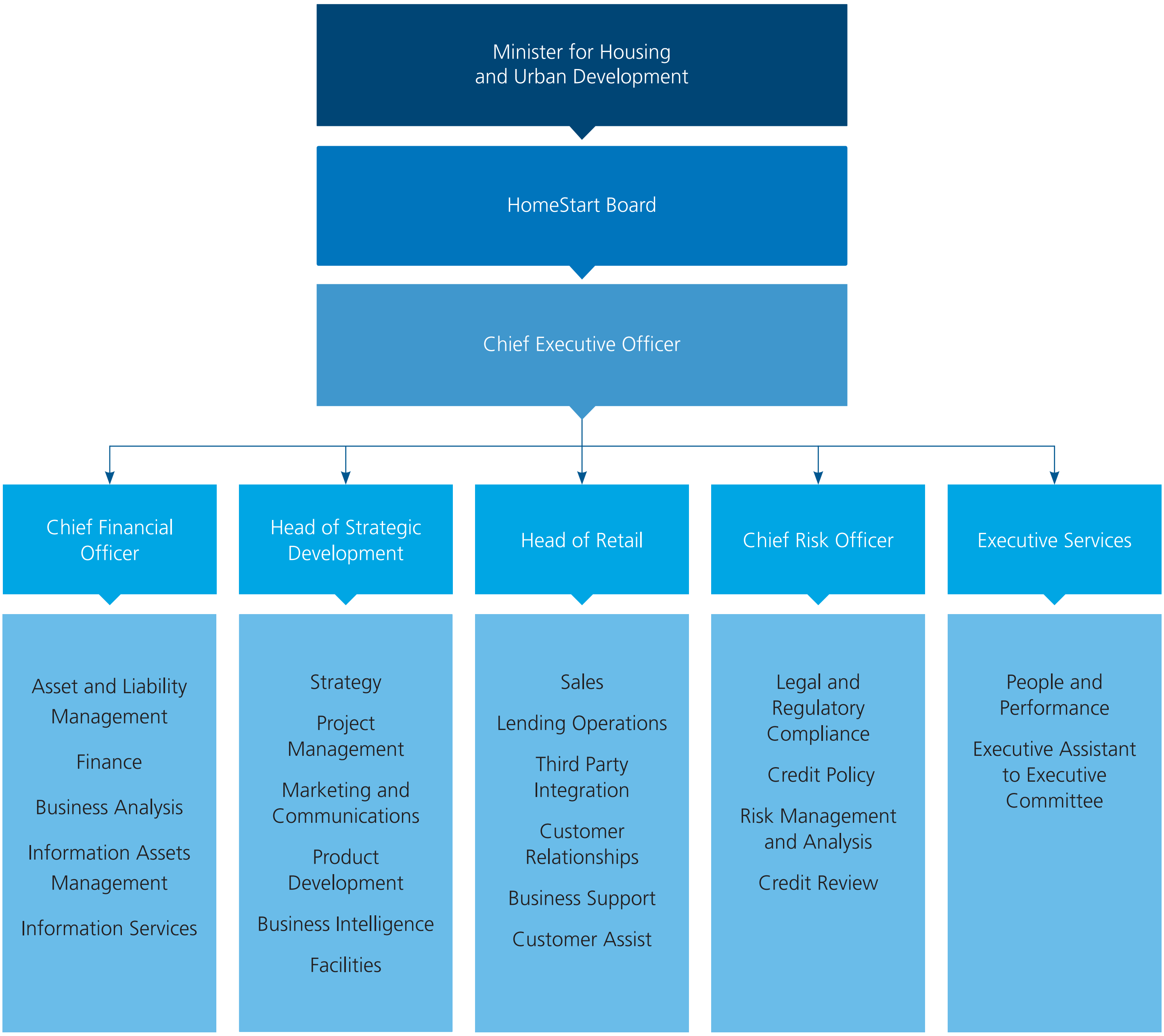
Male	Female	Total	% of workforce
0	0	0	0.0

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



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 Housing and Urban Development, the Hon Stephen Mullighan 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 2016-17 are identified on pages 24 and 25. At 30 June 2017, there was a vacancy in the Board of Management.

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

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

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 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 consider 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 and targets and policy directions.

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

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

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

Board member remuneration

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 2016-17 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
- comprehensive reporting to Executive, Audit Committee and Board
- organisation-wide feedback on existing and emerging risks.

Strategic risk

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

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 SAFA (South Australian Government Financing Authority), 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

This year has seen the introduction of a program to safeguard against information security risk as outlined in the standard ISO/IEC 27001:2013 Information Security Management.

The program has included 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.

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

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

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 service
- a 'ten 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 Audit Report is provided to the Board. The report for this financial year can be found on page 88.

Ernst & Young conducted the operational internal audit function for 2016-17 which was based on a three-year rolling audit plan.

The audit of new lending and arrears for internal lending and loan managers moved in house from 1 July 2016, 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.

Until recently he was 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. 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.

Maria Palumbo

Ms Palumbo is currently CEO at Junction Australia. Prior to this she was contracted to Renewal SA, working on the implementation of South Australia's social and affordable housing policies and projects, as Director, Housing Industry and Partnerships. She also previously held the role of Chief Executive Officer of Common Ground Adelaide Limited, a not-for-profit affordable housing company.

Ms Palumbo was appointed to the Board in April 2013 and resigned in April 2017.

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.

Roseanne Healy

Ms Healy is a non-executive director and corporate advisor. She holds qualifications in commerce, economics, business research and administration and specialises in strategy, risk management, corporate governance and sustainability reporting. Ms Healy is a former Chief Executive of SA Great and has served on listed, government, private and not-for-profit boards. Currently, she is a director of Grains Research and Development Corporation, CUFA Ltd, Nyamba Buru Yawuru Ltd, GP Partners Australia and Chair of Peninsula Leisure Pty Ltd, Dairy Authority of South Australia, Vinehealth Australia and the Nyamba Buru Yawuru Ltd Investment Committee.

Ms Healy was appointed to the Board in March 2014. Her term expired in March 2017.

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. As South Australia's first dedicated Minister for Road Safety, she oversaw the then state's lowest road toll in 2008. Ms Zollo was the first Italian-born woman to be elected to the Legislative Council as well as being South Australia's first Italian-born Cabinet Minister. 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 27 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.

Member	Board attendance	
	Eligible to attend#	Meetings attended
J Kouts (Chair)	11	11
C Ward (Deputy)	11	11
S Edwards	11	11
M Palumbo	8*	7
D Royans	11	11
R Healy	7*	7
C Zollo	5*	5
S Berggren	4*	3

*Reflects time of service as a Director

Member	Audit Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	-	-
S Edwards (Chair)	7	7
C Ward	*	7
M Palumbo	-	-
D Royans	-	-
R Healy	5	5
C Zollo	3	3
S Berggren	2	2

* C Ward attended as an alternate member on this committee.

Member	Asset & Liability Committee attendance	
	Eligible to attend	Meetings attended
J Kouts	*	-
C Ward (Chair)	12	12
S Edwards	-	-
M Palumbo	9	7
D Royans	12	12
R Healy	-	-
C Zollo	-	-
S Berggren	-	-

*J Kouts may attend as an alternate member on this committee.

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.

To do this, a Wellbeing Team was established in 2016-17 with its primary focus to "proactively support the total wellbeing of employees across five core areas", with the aim that people will "leave work healthier than when you arrived". The following five core areas help to 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.

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

- 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
- participation in fundraising events (e.g. Australia's Biggest Morning Tea, Cure Brain Cancer Foundation)
- participation in Australian Red Cross Blood Red25 program
- historical walks during lunch time

In addition we:

- have developed a Disability Access and Inclusion Plan
- 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 the 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
- formed an Emergency Control Committee
- appointed a Critical Response Officer
- conducted worksite inspections across all locations
- ergonomic assessment of work stations.

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 2016-17 compared with 2015-16[2]

Expenditure	2016-17 $'000	2015-16 $'000	Variation $'000 + (-)	% Change + (-)
Legal	25	0	25	Undefined
Medical – Allied Health	0	0	0	0
Medical Services	0	1	(1)	0
Other – Non-compensation	3	1	2	200
Redemption of Medical Expenses	20	0	20	Undefined
Total claims expenditure	**48**	**2**	**45**	**2250**

[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
- HomeStart customer newsletters.

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

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 2016-17 with a value greater than $4 million (GST inclusive), excluding property leases.

Overseas travel

Two HomeStart executives made overseas trips during 2016-17 for work-related purposes.

Public complaints

Category of complaint by subject	Number
Complaint received through the Credit and Investments Ombudsman	18
Collections	12
Policy	0
Service	6
Complaints lodged with State Ombudsman	1
Internal policy	1
Complaints direct to HomeStart	8
Collections	0
Policy	1
Service	4
Other	3
Total complaints	**26**

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	5	21
Total consultancies $10 000 and above		3	59
Tasman Human Resources	Information System Review		
Fragile to Agile	Enterprise architecture analysis		
Clear Vision Consulting	Regional Market Research		
Total consultancies		**8**	**80**

Financials

Sustainable financial management

In 2016-17 HomeStart achieved the financial targets set by the State Government, including an operating profit before tax of $20.3 million and representing a return on equity of 12.57% against a target of 9%.

HomeStart continued to provide substantial payments to the Government, amounting to $41.2 million for the year and totalling $557.9 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.

Under the terms of our financial operating parameters with the State Government, HomeStart received a Community Service Obligation (CSO) reimbursement of $6.2 million in 2016-17 ($6.1 million, 2015-16) in recognition of the cost of providing our non-commercial activities.

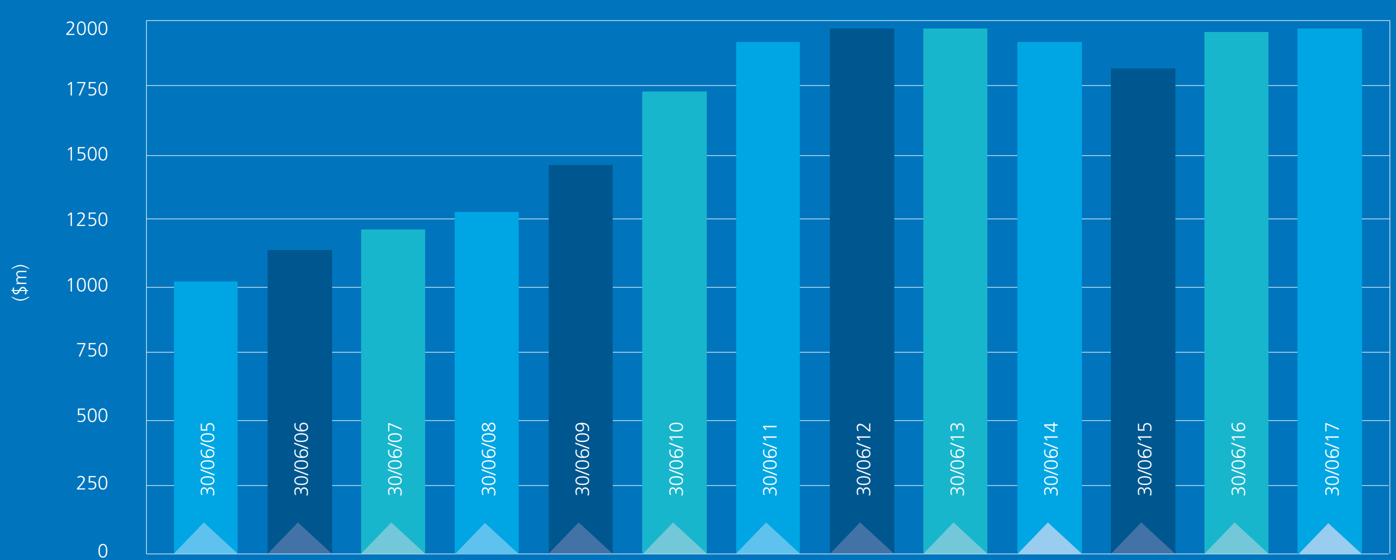
HomeStart's debt funding from SAFA was $1 730 million against a borrowing limit of $2 105 million. Our capital adequacy ratio was 15.60% (15.5%, 2015-16) against a target of 12%. Under the agreed operating parameters, HomeStart will maintain a minimum 12% capital adequacy ratio, with additional capital to be contributed by government to maintain this ratio, if necessary.

Asset and liability management

The loan portfolio increased in 2016-17 to $1 921.7 million ($1 847.3 million, 2015-16) as lending volumes increased throughout the year, and loan discharge levels decreased, ending the year above budget. 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.

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. The document also governs 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, as a sub-committee of ALCO, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Provisioning

HomeStart has recognised specific and collective provisions of $18.2 million ($17.3 million in 2015-16) 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 $8.3 million ($8.0 million, 2015-16). 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.

Financial indicators	2017	2016	2015	2014	2013	2012	2011	2010
Operating profit ($m)	20.3	17.0	15.6	17.0	16.4	14.4	15.5	16.8
Return on Equity	12.57%	10.29%	9.09%	10.21%	10.26%	9.22%	9.92%	11.41%
Net interest margin	1.32%	1.18%	1.03%	1.09%	1.16%	0.84%	0.67%	0.94%
Balance sheet strength								
Capital ($m)	165.4	157.3	173.2	169.3	164.2	154.5	155.1	157.9
Provisions ($m)	18.2	17.3	18.0	20.5	20.1	19.2	18.1	15.4
Loan assets ($m)	1922.8	1850.3	1819.1	1887.4	1943.8	1956.3	1903.2	1725.2
Net loan losses ($m)	0.17	0.81	0.40	0.90	0.84	0.54	0.13	0.04

Financial contributions to the State Government

$557.7 million paid to the State Government since inception.

Payment Type ($m)	2017	2016	2015	2014	2013	2012	1995[1] - 2011	TOTAL
Guarantee fee	28.0	26.5	27.5	28.0	27.1	26.9	131.7	295.7
SAFA[2] admin fee	1.0	1.0	1.0	1.1	1.1	1.1	9.9	16.2
Income tax	5.2	4.9	5.1	5.0	4.4	5.2	47.6	77.4
Dividends	7.1	7.1	7.1	7.2	6.3	6.2	60.1	101.1
Interim (special) Dividend	0.0	20.0	0.0	0.0	0.0	0.0	47.3	67.3
Total paid	**41.3**	**59.5**	**40.7**	**41.3**	**38.9**	**39.4**	**296.6**	**557.7**

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

Certification of the Financial Statements

For the year ended 30 June 2017

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 2017 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
19 September 2017

Chris Ward
Deputy Chair
19 September 2017

John Oliver
Chief Executive Officer
19 September 2017

David Hughes
Chief Financial Officer
19 September 2017

Statement of Comprehensive Income

For the year ended 30 June 2017

	Note No.	2017 $'000	2016 $'000
Interest income	4	96 345	97 541
Interest expense	4	(35 569)	(40 663)
Net interest income	4	**60 776**	**56 878**
Other income	5	12 474	13 895
Net gain from disposal of assets	2.8.7	1	4
Loan manager fees		(4 330)	(5 266)
Employee benefits expenses	6	(10 891)	(11 483)
Bad and impaired loans expense	10	(2 901)	(2 403)
Depreciation and amortisation expense	11	(1 281)	(1 456)
Other expenses	12	(6 641)	(6 616)
Profit before income tax equivalents and government guarantee fee expenses		47 207	43 553
Government guarantee fee	9	(26 931)	(26 553)
Profit before income tax equivalents		**20 276**	**17 000**
Income tax equivalents expense	2.6	(6 083)	(5 100)
Profit after income tax equivalents		**14 193**	**11 900**
Other Comprehensive Income			
Items that will be reclassified subsequently to net results when specific conditions are met			
Change in fair value of derivatives		3 065	(601)
Reclassified to profit on disposal/change in fair value of available-for-sale assets	15.3	(629)	(103)
Total other comprehensive income		2 436	(704)
Total comprehensive result		**16 629**	**11 196**

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 2017

	Note no.	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents	31.1	4 810	1 709
Financial investments designated at fair value through profit or loss	14	60 648	103 030
Financial investments – available-for-sale	15	-	10 801
Loans and advances	16	1 842 232	1 767 629
Other financial assets	17	620	968
Intangible assets	18	3 709	3 751
Property, plant and equipment	19	3 072	3 382
Other assets	20	378	1 401
Total assets		**1 915 469**	**1 892 671**
Liabilities			
Payables	22	4 177	5 303
Derivative financial instruments	33.2.2	3 847	6 911
Short-term borrowings	23	82 725	240 605
Employee benefits	24	2 345	2 367
Income tax equivalents payable	25.1	3 479	2 558
Provision for dividend	25.2	1 423	23
Long-term borrowings	23	1 647 000	1 472 000
Other liabilities	26	5 072	5 616
Total liabilities		**1 750 068**	**1 735 383**
Net assets		**165 401**	**157 288**

Statement of Financial Position (cont.)

As at 30 June 2017

	Note no.	2017 $'000	2016 $'000
Equity			
Reserves	27	4 487	1 670
Retained earnings		160 914	155 618
Total equity		**165 401**	**157 288**
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 2017

	Note	Retained earnings	General reserve for credit losses	Derivatives valuation reserve	Available-for-sale revaluation reserve	Total Equity
	no.	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2015		**171 313**	**7 498**	**(6 311)**	**732**	**173 232**
Profit after income tax equivalent for 2015-16		11 900	-	-	-	11 900
Change in fair value of derivatives	2.10.5	-	-	(601)	-	(601)
	33.4.2					-
Change in fair value of assets available-for-sale		-	-	-	(103)	(103)
Total comprehensive result for 2015-16		**11 900**	**-**	**(601)**	**(103)**	**11 196**
Transfer to/from credit loss reserve	27	(455)	455	-	-	-
Transactions with SA Government as owner						
Dividends paid	25	(7 140)	-	-	-	(7 140)
Interim dividend paid	25	(20 000)	-	-	-	(20 000)
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
	33.4.2					
Reclassified to profit on disposal of available-for-sale assets		-	-	-	(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**

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 2017

	Note no.	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		33	42
Investments		774	1 859
Loans and advances		91 797	93 460
Fees and commissions received		2 394	2 493
Bad debts recovered		194	114
Receipts from SA Government			
EquityStart grant received		691	556
Community Service Obligation subsidy received		6 248	6 066
Other receipts		510	490
Cash generated from operations		102 641	105 080
Cash outflows			
Employee benefit payments		(11 058)	(11 964)
Payments for supplies and services		(5 922)	(6 156)
Payments to loan managers		(4 621)	(5 415)
Borrowing costs paid		(35 755)	(40 127)
Government guarantee fee paid		(27 952)	(26 531)
Tax equivalent paid		(5 162)	(4 864)
Cash used in operations		(90 470)	(95 057)
Net cash provided by operating activities	31.2	12 171	10 023

Statement of Cash Flows (cont.)

For the year ended 30 June 2017

	Note no.	2017 $'000	2016 $'000
Cash flows from investing activities			
Cash inflows			
Shared appreciation components of Breakthrough Loan repaid	34.4	8 196	10 170
Proceeds from sale of office and computer equipment		2	11
Proceeds from sale of available-for-sale investments		10 560	1 000
Proceeds from investments designated at fair value through profit or loss		39 924	71 555
Customer loans repaid		334 366	342 502
Cash generated from investing activities		393 048	425 238
Cash outflows			
Purchase of property, plant and office and computer equipment		(186)	(3 014)
Purchase of software		(685)	(139)
Purchase of investments designated at fair value through profit or loss		(115)	(74 049)
Shared appreciation component of Breakthrough Loan settled	34.4	(4 589)	(4 099)
Customer loans settled		(406 547)	(373 277)
Cash used in investing activities		(412 122)	(454 578)
Net cash provided by/(used in) investing activities		(19 074)	(29 340)
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		727 120	994 248
Cash generated from financing activities		727 120	994 248
Cash outflows			
Dividends paid to SA Government		(7 116)	(27 075)
Repayment of borrowings		(710 000)	(948 099)
Cash used in financing activities		(717 116)	(975 174)
Net cash provided by/(used in) financing activities		10 004	19 074
Net increase/ (decrease) in cash and cash equivalents		3 101	(243)
Cash and cash equivalents at the beginning of the period		1 709	1 952
Cash and cash equivalents at the end of the period	31.1	4 810	1 709

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 2017

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 Housing and Urban Development.

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 2017 was $1 775.2 million ($1 706.8 million, 2015-16).

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 2017 the interest rate applying to Advantage Loans was 2.57% (1.67%, 2015-16). The outstanding value of Advantage Loans at 30 June 2017 was $68.6 million ($60.5 million, 2015-16).

For the year ended 30 June 2017 HomeStart received a Community Service Obligation (CSO) subsidy payment of $3.6 million ($3.2 million, 2015-16) 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 2017 was $33.6 million ($33.9 million, 2015-16).

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 ($0.6 million, 2015-16) 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 and term deposits
- at fair value through profit or loss - Breakthrough 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 Loan and its investments in SAFA managed funds and term deposits 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 Loan

The Breakthrough Loan facility includes two loan components:

– 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 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 2017 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 assets 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.

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 by the Chief Financial Officer and Audit Committee 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 major risks of HomeStart. The excess payable under this arrangement varies depending on each class of insurance held.

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 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 2016-17.

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 2017.

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 9	Financial Instruments	AASB 9 provides the principles for the classification, measurement, recognition and disclosure associated with financial assets and liabilities. It also includes new rules for hedge accounting. In Dec 2014, the AASB made further amendments to AASB 9's classification and measurement rules and also introduced a new impairment model. AASB 9 has now been finalised. The amending standards make various consequential amendments as a result of the issuance of AASB 9 and amend the mandatory effective date of AASB 9 to 1 Jan 2018.	1 July 2018	HomeStart has reviewed the new rules for classification, measurement, recognition and derecognition of financial assets and liabilities. The classification and measurement of the existing group of assets and liabilities as at 30 June 2017 will remain the same under the new standard with the exception of one group of assets. Further work will be undertaken to ascertain materiality of the financial impact of the asset group which is to be reclassified and remeasured. The new impairment model is an expected credit loss model which may result in earlier recognition of credit losses.	1 July 2018

Reference	Title and date of standard application	Summary	Application date of standard	Impact on financial statements	Application date for HomeStart
				HomeStart has focused this year on identifying a high level assessment of available data (including quality and suitability) for inclusion in a model with parameters for calculating expected credit losses. A project plan for developing a model for the new standard, which will align more closely with HomeStart's credit risk practices has been approved.	
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 will commence its analysis of current leasing arrangements based on AASB16 soon. 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 the HomeStart's financial result.	1 July 2019

NOTE 4 Net interest income

Interest received/receivable	2017 $'000	2016 $'000
Loans and advances	90 512	92 109
Subsidised loans effective interest income	3 893	3 902
Subsidised loans fair value expense	(1 011)	(1 424)
Loan origination income amortisation	2 918	2 912
Deposits with banks	33	42
Total interest received/receivable	**96 345**	**97 541**
Interest paid/payable		
Borrowings from SAFA	(35 569)	(40 663)
Total interest paid/payable	**(35 569)**	**(40 663)**
Net interest income	**60 776**	**56 878**

NOTE 5 Other income

	2017 $'000	2016 $'000
Fees and charges	2 985	3 173
Bad debts recovered	194	114
Unrealised change in fair value of loans*	1 009	1 753
Realised change in fair value of loans	468	395
Managed funds distribution	26	66
Interest received from investments at fair value through profit or loss	216	1 033
Realised gains on disposal of available-for-sale investments	422	-
Interest received from available-for-sale investments	173	507
EquityStart grant	687	677
Community Service Obligation (CSO) subsidy	6 248	6 066
Other	46	111
Total other income	**12 474**	**13 895**

*The shared appreciation component of the Breakthrough Loan is measured at fair value through profit or loss. The fair value of this loan component is based on independent valuations of the properties pledged as collateral. 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 ($0.6 million, 2015-16) 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 2017 ($nil, 2015-16).

NOTE 6 Employee benefits expenses

	2017 $'000	2016 $'000
Salaries and wages	9 101	9 509
Long service leave (LSL)	120	317
Annual leave	36	28
Employment on-costs* – superannuation	871	842
Employment on-costs – other	484	511
Workers compensation	30	16
Board and committee fees	249	260
Total employee benefits expenses	**10 891**	**11 483**

*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 $2.93 million ($3.60 million, 2015-16).

Remuneration of employees	**2017 No.**	**2016 No.**
The number of employees whose remuneration received or receivable falls within the following bands:		
$145 000 to $147 000 (*)	n/a	3
$147 001 to $157 000	6	3
$157 001 to $167 000	1	1
$167 001 to $177 000	3	1
$177 001 to $187 000	-	1
$187 001 to $197 000	-	1
$197 001 to $207 000	2	1
$217 001 to $227 000	-	1
$227 001 to $237 000	-	1
$237 001 to $247 000	-	2
$247 001 to $257 000	1	-
$257 001 to $267 000	-	-
$267 001 to $277 000	1	-
$387 001 to $397 000	-	-
$407 001 to $417 000	-	1
$417 001 to $427 000	1	-
$457 001 to $467 000	-	1
Total	**15**	**17**

*This band has been included for the purposes of reporting comparative numbers based on the executive base level remuneration rate for 2015-16.

Number of employees

HomeStart employed 107 people at the end of the reporting period (99, 2015-16).

NOTE 8 Key management personnel

Key management personnel of HomeStart include the Minister for Housing and Urban Development, members of the Board of directors, 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 Roseanne Healy held the position of governing board member from 1 July 2016 until the Board appointment expiry date of 13 March 2017.

Ms Maria Palumbo held the position of governing board member from 1 July 2016 until her resignation from the Board effective 22 May 2017.

Ms Carmel Zollo held the position of governing board member from 19 December 2016 until 30 June 2017.

Ms Shanti Berggren held the position of governing board member from 15 March 2017 until 30 June 2017.

Subsequent to the end of financial year, Ms Catherine Anne King commenced the position of governing board member effective 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 2017 and 2016 included in Employee benefits expenses (see note 6) is as follows:

	2017 $'000	2016 $'000
Salaries and other short-term employee benefits	1 360	1 256
Long-term employee benefits (long service leave)	30	61
Long-term employee benefits (amounts paid to superannuation plans)	127	118
Total	**1 517**	**1 435**

(d) Remuneration of governing board members

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

	2017 No.	2016 No.
$10 000 - $19 999*	1	-
$20 000 - $29 999	2	1
$30 000 - $39 999	2	3
$40 000 - $49 999	2	2
$50 000 - $59 999	1	1
Total number of governing board members	**8**	**7**

* This band has been added to report remuneration of a governing board member who held the position since March 2017.

The total remuneration received and receivable by those governing board members was $0.27 million ($0.28 million, 2015-16) 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.

Ms Maria Palumbo received remuneration for her role on the HomeStart Board until her resignation from the Board effective 22 May 2017, despite her secondment from the private sector to Renewal SA. This arrangement was approved by the Chief Executive of the Department of Premier and Cabinet as required by Premier and Cabinet Circular No. 016.

NOTE 9 Government guarantee fee

	2017 $'000	2016 $'000
Government guarantee fee paid or payable	26 931	26 553
Total government guarantee fee paid or payable	**26 931**	**26 553**

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 2016-17 financial year until their maturity.

HomeStart paid a guarantee fee of 1.6% of outstanding borrowings to the Department of Treasury and Finance in 2015-16 financial year.

NOTE 10 Bad and impaired loans expense

	2017 $'000	2016 $'000
Bad and impaired loans expense	168	812
Increase in provision for impairment	2 733	1 591
Total bad and impaired loans expense	**2 901**	**2 403**

NOTE 11 Depreciation and amortisation expense

	2017 $'000	2016 $'000
Other office and computer equipment	201	195
Leasehold improvements	353	568
Intangible assets	727	693
Total depreciation and amortisation expense	**1 281**	**1 456**

NOTE 12 Other expenses

	2017 $'000	2016 $'000
External auditor's remuneration	173	164
Insurance	103	98
Unrealised change in fair value of investments	-	6
Office accommodation	802	995
Marketing, product development and advertising	1 339	1 212
Internal audit fees	191	299
Loan administration	188	218
Information technology	1 490	1 362
Consultants' fees	80	181
Human resources and staff development	450	422
Other	1 825	1 659
Total other expenses	**6 641**	**6 616**

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.	2017 $'000	NO.	2016 $'000
Below $10 000	5	21	5	28
Above $10 000	3	59	3	153
Total paid/payable to the consultants engaged	**8**	**80**	**8**	**181**

NOTE 13 Auditor's remuneration

	2017 $'000	2016 $'000
Audit fees paid/payable to the Auditor-General's Department relating to work performed under the Public Finance and Audit Act	173	164
Total audit fees	**173**	**164**

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	2017 $'000	2016 $'000
SAFA Cash Management Fund	826	3 609
Term Deposits	-	37 000
Breakthrough Loan (shared appreciation component)	59 822	62 421
Total financial investments designated at fair value through profit or loss	**60 648**	**103 030**

14.2 Maturity profile of HomeStart's financial investments designated at fair value through profit or loss	2017 $'000	2016 $'000
At call	826	3 609
Not longer than three months	-	35 000
Longer than three months and not longer than twelve months	-	2 000
Longer than five years	59 822	62 421
Total financial investments designated at fair value through profit or loss	**60 648**	**103 030**

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	2017 $'000	2016 $'000
Bonds	-	10 801
Total financial investments – available-for-sale	**-**	**10 801**

15.2 Maturity profile of HomeStart's financial investments – available-for-sale	2017 $'000	2016 $'000
Longer than three months and not longer than twelve months	-	4 138
Longer than twelve months and not longer than five years	-	6 663
Total financial investments – available-for-sale	**-**	**10 801**

15.3 Reconciliation of available-for-sale investments	2017 $'000	2016 $'000
Opening balance at 1 July	**10 801**	**12 005**
Disposals	(10 138)	(1 000)
Amortisation	(34)	(101)
Reclassified to profit on disposal/Change in fair value (recognised directly in equity)	(629)	(103)
Closing balance at 30 June	**-**	**10 801**

NOTE 16 Loans and advances

16.1 Loans and advances	2017 $'000	2016 $'000
Primary loans	1 775 230	1 706 834
Subsidised loans	104 676	98 461
Gross loans and advances	**1 879 906**	**1 805 295**
Fair value adjustment	(11 571)	(13 168)
Deferred loan fee income	(7 922)	(6 510)
Deferred loan fee expense	2 543	2 311
Specific provision for impairment	(8 992)	(9 076)
Unearned income on impaired loans	(2 544)	(3 011)
Collective provision for impairment	(9 188)	(8 212)
Net loans and advances	**1 842 232**	**1 767 629**
Specific provision for impaired loans		
Opening balance	9 076	10 176
Bad debts written-off	(1 841)	(2 292)
Impairment expense	1 757	1 192
Closing balance	**8 992**	**9 076**
Collective provision for impairment		
Opening balance	8 212	7 813
Impairment expense	976	399
Closing balance	**9 188**	**8 212**
Total provision for impairment	**18 180**	**17 288**

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

	2017 $'000	2016 $'000
Deferred financial investment income	-	110
Accrued interest on housing loans and advances	253	253
Accrued financial investment income	-	241
EquityStart grant receivable	159	159
GST recoverable	48	38
Other	160	167
Total other financial assets	**620**	**968**

NOTE 18 Intangible assets

	2017 $'000	2016 $'000
Software at cost	7 310	6 625
Accumulated amortisation	(3 601)	(2 874)
Total software	**3 709**	**3 751**
Carrying amount at 1 July	**3 751**	**4 333**
Additions	685	111
Amortisation	(727)	(693)
Carrying amount at 30 June	**3 709**	**3 751**

All 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 2017.

NOTE 19 Property, plant and equipment

	2017 $'000	2016 $'000
Leasehold improvements		
Leasehold improvements at cost (deemed fair value)	3 122	3 106
Accumulated depreciation	(602)	(289)
Total leasehold improvements	**2 520**	**2 817**
Other office and computer equipment		
Other office and computer equipment at cost (deemed fair value)	2 549	2 435
Accumulated depreciation	(1 997)	(1 870)
Total other office and computer equipment	**552**	**565**
Total property, plant and equipment	**3 072**	**3 382**

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 2015	**878**	**171**	**1 049**
Additions – at cost (deemed fair value)	1 844	596	2 440
Revaluation of make good asset	663	-	663
Disposals – at cost (deemed fair value)	(3 038)	(972)	(4 010)
Disposals – accumulated depreciation	3 038	965	4 003
Depreciation and amortisation	(568)	(195)	(763)
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**

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

	2017 $'000	2016 $'000
Operating lease incentive	-	815
Prepayments	378	586
Total other assets	**378**	**1 401**

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 follow:

Fair value measurements at 30 June 2017

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

Fair value measurements at 30 June 2016

Recurring fair value measurements	**2016 $'000**	**Level 3 $'000**
Leasehold improvements	2 817	2 817
Other office and computer equipment	565	565
Total recurring fair value measurements	**3 382**	**3 382**

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2017 and 2016, 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 2017 and 2016. 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 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**

Reconciliation of Level 3 recurring fair value measurements as at 30 June 2016

	Property, plant and equipment $'000
Opening balance at the beginning of the period	**1 049**
Acquisitions	2 440
Revaluation of make good asset	663
Disposal	(7)
Depreciation	(763)
Carrying amount at the end of the period	**3 382**

NOTE 22 Payables

22.1 Payables	**2017 $'000**	**2016 $'000**
Creditors	372	199
Accrued administration expenses	243	272
Employment on-costs*	379	383
Accrued interest payable on borrowings	1 465	1 642
Accrued interest payable on derivatives	111	120
Accrued guarantee fee payable	1 193	2 214
Accrued loan manager fees	414	473
Total payables	**4 177**	**5 303**

*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	**2017 $'000**	**2016 $'000**
Short-term borrowings payable		
Short-term borrowings	82 725	240 605
Total short-term borrowings payable	**82 725**	**240 605**
Long-term borrowings payable		
Long-term borrowings	1 647 000	1 472 000
Total long-term borrowings payable	**1 647 000**	**1 472 000**
Total interest bearing liabilities	**1 729 725**	**1 712 605**

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	2017 $'000	2016 $'000
Accrued salaries	179	139
Annual leave	578	620
Long service leave	1 588	1 608
Total employee benefits	**2 345**	**2 367**

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 increased to 2.5% 2017, (2.0 %, 2016).

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

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of $68 461 and employee benefits expense of $78 354. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions - including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4%. 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	2017 $'000	2016 $'000
Income tax equivalent payable	3 479	2 558
Total tax equivalent payable	**3 479**	**2 558**

25.2 Provision for dividend	2017 $'000	2016 $'000
Dividend payable	1 423	23
Total dividend payable	**1 423**	**23**

Pursuant to Section 26 of the *Urban Renewal Act 1995,* HomeStart must recommend to the Minister for Housing and Urban Development, 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 2017, the Board of HomeStart recommended the payment of a dividend of 60% of after tax profit (60%, 2015-16). Based on the forecast profit this amounted to a total dividend of $7.1 million in respect of the year ended 30 June 2017 ($7.1 million, 2015-16). The Minister and Treasurer approved the recommendation and the estimated amount was paid in June 2017.

The actual dividend based on the actual after tax profit of $14.2 million was $8.5 million. HomeStart paid a dividend amount of $7.1 million to the Department of Treasury and Finance prior to the end of the financial year ($7.1 million, 2015-16). The amount of dividend payable of $1.4 million is disclosed in note 25 as Provision for dividend. HomeStart will pay this residual dividend amount of $1.4 million in respect of the financial year ended 30 June 2017 in June 2018 ($0.02 million, 2015-16).

HomeStart also paid an interim dividend of $20.0 million to the Department of Treasury and Finance prior to the end of 2015-16 financial year. This was a one off interim dividend approved by the Minister in September 2015, following recommendation from the HomeStart Board in August 2015.

NOTE 26 Other liabilities

26.1 Other liabilities	2017 $'000	2016 $'000
Unearned income (EquityStart grant)	774	770
Workers compensation provision*	47	46
Wyatt Benevolent Institution	2 347	2 332
Operating lease liability	1 499	1 568
Make good provision	400	750
Provision for restructure	-	145
City of Salisbury	5	5
Total other liabilities	**5 072**	**5 616**

*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 2017 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)	2017 $'000	2016 $'000
Opening balance	**770**	**822**
Amounts received/receivable	691	625
Amount recognised as earned (note 5)	(687)	(677)
Closing balance	**774**	**770**

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	2017 $'000	2016 $'000
Opening balance	**750**	**714**
Revaluation of provision	40	663
Charges against provision	(390)	(627)
Closing balance	**400**	**750**

Revaluation of the make good provision amount relates to the premises at 153 Flinders Street vacated in July 2015. The make good provision for 153 Flinders Street has been 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 2017 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:

	2017 $'000	2016 $'000
Within one year	145	550
Total capital commitments	**145**	**550**

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:

	2017 $'000	2016 $'000
Within one year	569	452
Later than one year but not longer than five years	1 869	528
Total expenditure commitments	**2 438**	**980**

HomeStart's software licence commitments in 2017 and 2016 are in relation to the Front End Loan System and Microsoft software suite.

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:

	2017 $'000	2016 $'000
Within one year	917	891
Later than one year but not longer than five years	3 690	3 550
Later than five years	3 009	3 955
Total operating lease commitments	**7 616**	**8 396**
Representing:		
Non-cancellable operating leases	7 616	8 396
Total operating lease commitments	**7 616**	**8 396**

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

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 $53.8 million ($55.5 million, 2015-16). 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:

	2017 $'000	2016 $'000
Cash and Cash equivalents disclosed in the Statement of Financial Position	4 810	1 709
Balance as per Statement of Cash Flows	4 810	1 709

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

	2017 $'000	2016 $'000
Profit for the year	**14 193**	**11 900**
Gain from sale of office and computer equipment	(1)	(4)
Add/less non cash items		
Amortisation of discount or premium on purchase of available-for-sale financial assets	34	101
Depreciation and amortisation expense of non-financial assets	1 281	1 456
Unrealised change in fair value of loans	(1 009)	(1 753)
Unrealised change in fair value of investments	-	6
Realised gains on disposal of available-for-sale financial assets	(422)	-
Reinvestment of managed funds distribution	(26)	(66)
Bad debts written-off	2 009	3 104
Fees applied directly to loan accounts	(4 904)	(4 462)
Movement in assets and liabilities		
(Decrease) increase in provision for impairment	892	(701)
(Decrease) increase in deferred loan fee income	1 412	884
(Increase) decrease in deferred loan fee expense	(232)	(140)
(Decrease) increase in fair value adjustment	(1 597)	(1 131)
(Decrease) increase in payables	(565)	989
(Decrease) increase in provision for employee benefits	(22)	(181)
(Decrease) increase in provision for restructure	(145)	(300)
(Decrease) increase in other liabilities	4	(121)
(Decrease) increase in income tax equivalents payable	921	236
(Increase) decrease in financial and other assets	348	206
Net cash provided by operating activities	**12 171**	**10 023**

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	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
	Income						
4	Interest income	-	-	96 345	97 541	96 345	97 541
5	Other income						
	Fees and charges	-	-	2 985	3 173	2 985	3 173
	Managed funds distribution	26	51	-	15	26	66
	Unrealised gain in fair value of loans	-	-	1 009	1 753	1 009	1 753
	EquityStart grant	687	677	-	-	687	677
	Community Service Obligation (CSO) subsidy	6 248	6 066	-	-	6 248	6 066
	Other income	-	-	1 519	2 160	1 519	2 160
	Net gain/(loss) from disposal of assets	-	-	1	4	1	4
	Total income	6 961	6 794	101 859	104 646	108 820	111 440
	Expenses						
4	Interest expense on SAFA borrowings	(35 569)	(40 663)	-	-	(35 569)	(40 663)
10	Bad and impaired loans expense	-	-	(2 901)	(2 403)	(2 901)	(2 403)
	Loan manager fees	-	-	(4 330)	(5 266)	(4 330)	(5 266)
6	Employee benefits expenses	(484)	(511)	(10 407)	(10 972)	(10 891)	(11 483)
11	Depreciation and amortisation expenses	-	-	(1 281)	(1 456)	(1 281)	(1 456)
12	Other expenses						
	External auditor remuneration	(173)	(164)	-	-	(173)	(164)
	Office accommodation	-	-	(802)	(995)	(802)	(995)
	Marketing, product development and advertising	-	-	(1 339)	(1 212)	(1 339)	(1 212)
	Internal audit fees	-	-	(191)	(299)	(191)	(299)
	Loan administration	-	-	(188)	(218)	(188)	(218)
	Information technology	-	-	(1 490)	(1 362)	(1 490)	(1 362)
	Insurance	-	-	(103)	(98)	(103)	(98)
	Consultant fees	-	-	(80)	(181)	(80)	(181)
	Human resources and staff development	-	-	(450)	(422)	(450)	(422)
	Other	-	-	(1 825)	(1 665)	(1 825)	(1 665)
9	Government guarantee fee	(26 931)	(26 553)	-	-	(26 931)	(26 553)
	Total expenses	(63 157)	(67 891)	(25 387)	(26 549)	(88 544)	(94 440)

Note		SA Government		Non-SA Government		Total	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
	Financial assets						
	Cash and cash equivalents	-	-	4 810	1 709	4 810	1 709
14	Financial investments at fair value through profit or loss	826	3 609	59 822	99 421	60 648	103 030
15	Financial investments available for sale	-	-	-	10 801	-	10 801
16	Loans and advances	-	-	1 842 232	1 767 629	1 842 232	1 767 629
17	Other financial assets	167	165	453	803	620	968
20	Other assets	-	-	378	1 401	378	1 401
	Total financial assets	993	3 774	1 907 695	1 881 764	1 908 688	1 885 538
	Financial liabilities						
22	Payables	(3 004)	(4 216)	(1 173)	(1 087)	(4 177)	(5 303)
33.2.2	Derivative financial instruments	(3 847)	(6 911)	-	-	(3 847)	(6 911)
23	Short term borrowings	(82 725)	(240 605)	-	-	(82 725)	(240 605)
24	Employee benefits	-	-	(2 345)	(2 367)	(2 345)	(2 367)
25	Income tax equivalents payable	(3 479)	(2 558)	-	-	(3 479)	(2 558)
25	Provision for dividend	(1 423)	(23)	-	-	(1 423)	(23)
26	Other liabilities	(774)	(770)	(4 298)	(4 846)	(5 072)	(5 616)
23	Long term borrowings	(1 647 000)	(1 472 000)	-	-	(1 647 000)	(1 472 000)
	Total financial liabilities	(1 742 252)	(1 727 083)	(7 816)	(8 300)	(1 750 068)	(1 735 383)

NOTE 33 Financial risk management

33.1 Overview

HomeStart's activities expose it to a variety of 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 $1.1 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 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 $1.1 million and individual loan applications greater than $1.1 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.

<u>Lending policies</u>

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.

<u>Collateral</u>

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:

	2017	2016
Past due but not impaired	**$'000**	**$'000**
Gross carrying value	62 692	80 620
Fair value of collateral	100 224	123 838
Impaired		
Gross carrying value, before specific provision for impairment	48 004	52 044
Unearned income on impaired loans	(2 544)	(3 011)
Specific provision for impairment	(8 992)	(9 076)
Net impaired loans and advances	**36 468**	**39 957**
Fair value of collateral	50 690	53 215

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 23% (24%, 2015-16) 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 34% (33%, 2015-16) 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 Loans as being at fair value through profit or loss. The credit risk attaching to the shared appreciation component of the Breakthrough Loan is not material.

(d) *Credit quality and maximum exposure to credit risk*

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of $1 842.1 million ($1 767.63 million, 2015-16).

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.

	2017 $'000	2016 $'000
Not impaired		
Neither renegotiated nor past due		
Low risk	1 190 090	1 392 391
Moderate risk	490 813	241 327
High risk	81 931	29 198
Gross loans and advances neither renegotiated nor past due	**1 762 834**	**1 662 916**
Renegotiated (1)		
Low risk	4 826	6 358
Moderate risk	882	2 654
High risk	668	703
Gross loans and advances renegotiated	**6 376**	**9 715**
Past due but not impaired (2)		
Low risk	24 729	30 514
Moderate risk	20 825	30 873
High risk	17 138	19 233
Gross loans and advances past due but not impaired	**62 692**	**80 620**
Total not impaired		
Low risk	1 219 645	1 429 263
Moderate risk	512 520	274 854
High risk	99 737	49 134
Gross loans and advances not impaired	**1 831 902**	**1 753 251**

	2017 $'000	2016 $'000
Impaired (3)		
Low risk	14 690	17 451
Moderate risk	20 636	22 766
High risk	12 678	11 827
Gross impaired loans and advances	*48 004*	*52 044*
Unearned income on impaired loans	(2 544)	(3 011)
Specific provision for impairment	(8 992)	(9 076)
Impaired loans and advances after provision and unearned income	**36 468**	**39 957**
Total		
Low risk	1 234 335	1 446 714
Moderate risk	533 156	297 620
High risk	112 415	60 961
Gross loans and advances	*1 879 906*	*1 805 295*
Fair value adjustment	(11 571)	(13 168)
Deferred loan fee income	(7 922)	(6 510)
Deferred loan fee expense	2 543	2 311
Unearned income on impaired loans	(2 544)	(3 011)
Specific provision for impairment	(8 992)	(9 076)
Collective provision for impairment	(9 188)	(8 212)
Net loans and advances	**1 842 232**	**1 767 629**

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

	2017 $'000	2016 $'000
<30 days	46 357	60 346
30 – 59 days	8 724	11 979
60 – 89 days	3 060	3 471
90 – 179 days	1 976	3 060
>179 days	2 575	1 764
Total	**62 692**	**80 620**

(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 $6.4 million as at 30 June 2017 ($9.7 million, 2015-16)

In prior years, the renegotiated loans amount reported ($28.2 million in 2015-16) represented the gross carrying amount of loans and advances at 30 June in relation to which arrears capitalisation had occurred at any time prior to the financial reporting date (without a 12 month limit). The 12 month criteria for inclusion in the reporting was introduced as the relevance of the event diminishes with time. If the loan does revert to being in arrears then it would be picked up as impaired or past due.

(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 2017 and 30 June 2016, HomeStart did not have any exposure to credit risk arising from derivative financial liabilities.

	2017 $'000	2016 $'000
Derivative financial instruments	**(3 847)**	**(6 911)**
Swap income receivable	110	110
Swap expense payable	(221)	(230)
Net payable (note 22)	**(111)**	**(120)**

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 2017 ($2 105 million, 2015-16).

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%, 2015-16) of total debt outstanding.

% of debt subject to refinancing in the next 12 month period	**2017 %**	**2016 %**
At 30 June	4.80	14.05
Average for the period	30.20	36.41
Maximum for the period	41.20	41.53
Minimum for the period	4.80	12.07

Temporary ALCO approval was granted in September 2016 to exceed the 40% limit for short term funding until maturity 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.

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**

2016	Up to 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	Total $'000	Carrying value $'000
Liabilities							
Payables	5 303	-	-	-	-	5 303	**5 303**
Borrowings	244 402	9 416	40 065	1 563 205	-	1 857 088	**1 712 605**
Other financial liabilities	-	1 279	1 302	-	-	2 581	**2 581**
Total liabilities (contractual maturity dates)	**249 705**	**10 695**	**41 367**	**1 563 205**	**-**	**1 864 972**	**1 720 489**

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 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
2017	(184)	(364)	(1 429)	(2 469)	(206)	(4 652)	(3 847)
2016	(189)	(374)	(1 617)	(4 526)	(627)	(7 333)	(6 911)

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 Master Document sets out the policies which govern HomeStart's management of market risk. Adherence to these policies is monitored by ALCO at its monthly meetings 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 2017, HomeStart had floating/fixed swaps with a notional value of $157.5 million ($118 million, 2015-16) with fixed rates varying between 1.49% and 7.21% (1.80% and 7.21%, 2015-16).

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 2017, a $3.1 million gain ($0.6 million loss, 2015-16) 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.

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

2016	**Carrying amount $'000**	**-10%**	**10%**
SAFA Cash Management Fund	3 609	(361)	361
Total increase/(decrease) in profit before tax and equity	**3 609**	**(361)**	**361**

33.4.4 Breakthrough Loan property price risk

(a) *Risk control and mitigation policies*

HomeStart is exposed to property price risk arising from the shared appreciation component of Breakthrough Loans made to customers that are measured at fair value through profit or loss. The fair value of this loan is based on the value of the property pledged as collateral (note 2.10.2).

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

(b) *Maximum exposure to property price risk*

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

	2017 Carrying amount $'000	-5%	5%	2016 Carrying amount $'000	-5%	5%
Breakthrough Loan	59 822	(3 658)	3 854	62 421	(3 812)	4 031
Total increase/(decrease) in profit before tax and equity		**(3 658)**	**3 854**		**(3 812)**	**4 031**

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	2017 Carrying value $'000	2017 Fair value $'000	2016 Carrying value $'000	2016 Fair value $'000
Financial assets					
Cash and cash equivalents	N/A	4 810	4 810	1 709	1 709
Investments	Fair value through profit or loss	60 648	60 648	103 030	103 030
Investments	Available-for-sale	-	-	10 801	10 801
Loans and advances [1]	Amortised cost	1 842 232	1 842 304	1 767 629	1 768 272
Other financial assets	Financial assets (at cost)	620	620	968	968
Total financial assets		**1 908 310**	**1 908 382**	**1 884 137**	**1 884 780**
Financial liabilities					
Borrowings [2]	Financial liabilities (amortised cost)	1 729 725	1 736 108	1 712 605	1 715 386
Other liabilities	Financial liabilities (amortised cost)	5 072	5 072	5 616	5 616
Derivative financial instruments	Hedge accounting (fair value through equity)	3 847	3 847	6 911	6 911
Payables	Financial liabilities (at cost)	4 177	4 177	5 303	5 303
Total financial liabilities		**1 742 821**	**1 749 204**	**1 730 435**	**1 733 216**
Net financial assets		**165 489**	**159 178**	**153 702**	**151 564**

[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 2017.

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 are determined using exit prices supplied by the fund managers at reporting date.

(d) *Shared appreciation component of the Breakthrough Loan*

Note 2.10.2 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough Loan.

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

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

When management judges that valuations determined using an automated valuation method are not sufficiently accurate, valuations provided by either the Valuer-General or another independent valuer are used.

The following summarises how the fair values of properties used as collateral for Breakthrough Loans have been determined.

	2017 %	2016 %
Valuation determined using an automated method (Hometrack Australia)	93.63	95.39
Valuation provided by the Valuer-General	6.37	4.47
Other valuations used	-	0.14

(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.

2017	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	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)**

2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets measured at fair value				
SAFA Cash Management Fund	-	3 609	-	3 609
Term deposits	-	37 000	-	37 000
Bonds	-	10 801	-	10 801
Breakthrough Loan (shared appreciation component)	-	-	62 421	62 421
Total financial assets measured at fair value	**-**	**51 410**	**62 421**	**113 831**
Financial liabilities measured at fair value				
Derivative financial instruments	-	6 911	-	6 911
Total financial liabilities measured at fair value	**-**	**6 911**	**-**	**6 911**

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

	2017 $'000	2016 $'000
Fair value at 1 July	**62 421**	**66 739**
Breakthrough Loan settlements	4 588	4 099
Breakthrough Loan discharges	(8 196)	(10 170)
Unrealised change in fair value of loans (note 5)	1 009	1 753
Fair value at 30 June	**59 822**	**62 421**

Note 33.4.4(c) discloses sensitivity of HomeStart's profit to movements in the values of properties used as collateral for a Breakthrough Loan.

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 the following suppliers of services:

Financing services

SAFA is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a proportion of its loan management services to BankSA and Australian Associated Advisers Pty Ltd, trading as KeyInvest Lending Services.

Homeloans Plus provided loan management services to HomeStart until 31 July 2016 while Bernie Lewis provided loan management services until 28 February 2017.

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 2017.

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 2017, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2017
- a Statement of Financial Position as at 30 June 2017
- a Statement of Changes in Equity for the year ended 30 June 2017
- a Statement of Cash Flows for the year ended 30 June 2017
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and 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 and the Board for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and the 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 is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive 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 progress.

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
- 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 and the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

Andrew Richardson
Auditor-General
20 September 2017

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