

HomeStart Finance

Financial report
for the year ended
30 June 2018



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To the Chair HomeStart Finance

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 27(4) of the *Urban Renewal Act 1995*, I have audited the financial report of HomeStart Finance for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the HomeStart Finance as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information for administered items
- a Certificate from the Chair, Deputy Chair, Chief Executive Officer and the Chief Financial Officer.

Basis for opinion

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- conclude on the appropriateness of the entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

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

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

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



Andrew Richardson

Auditor-General

19 September 2018

HomeStart Finance

Certification of the Financial Statements

For the year ended 30 June 2018

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

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of HomeStart Finance; and
- present a true and fair view of the financial position of HomeStart Finance as at 30 June 2018 and the results of its operations and cash flows for the financial year.

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

Signed in accordance with a resolution of the board members.



Jim Kouts
Chair
18 September 2018



Chris Ward
Deputy Chair
18 September 2018



John Oliver
Chief Executive Officer
18 September 2018



David Hughes
Chief Financial Officer
18 September 2018

HomeStart Finance

Statement of Comprehensive Income

For the year ended 30 June 2018

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

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

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

HomeStart Finance

Statement of Financial Position

As at 30 June 2018

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

HomeStart Finance
Statement of Financial Position (cont.)
As at 30 June 2018

	Note no.	2018 \$'000	2017 \$'000
Equity			
Reserves	27	5 707	4 487
Retained earnings		156 483	160 914
Total equity		162 190	165 401

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments 28

Contingent assets and contingent liabilities 29

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

HomeStart Finance

Statement of Changes in Equity

For the year ended 30 June 2018

	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 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
Profit after income tax equivalent for 2017-18		13 211	-	-	-	13 211
Change in fair value of derivatives	2.10.5	-	-	1 470	-	1 470
	33.4.2					
Total comprehensive result for 2017-18		13 211	-	1 470	-	14 681
Transfer to/from credit loss reserve	27	250	(250)	-	-	-
Transactions with SA Government as owner						
Dividends paid/payable	25	(7 926)	-	-	-	(7 926)
Interim dividend paid	25	(9 966)	-	-	-	(9 966)
Balance at 30 June 2018		156 483	8 084	(2 377)	-	162 190

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

HomeStart Finance

Statement of Cash Flows

For the year ended 30 June 2018

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

HomeStart Finance

Statement of Cash Flows (cont.)

For the year ended 30 June 2018

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 1 Objectives of HomeStart Finance

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

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

HomeStart Home Loan

HomeStart provides home loans principally to low to moderate income households and other needs groups. The HomeStart Home Loan is the primary loan product and the outstanding value of the product as at 30 June 2018 was \$1 938.5 million (\$1 775.2 million, 2016-17).

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

Subsidies

HomeStart provides subsidised Advantage Loans of up to \$45 000 to lower income earners. For loans issued after 3 February 2014, the loan is interest bearing from the drawdown date, prior to that date the maximum loan was \$30 615 and the loan was interest free if repaid within five years. The Advantage Loan interest is calculated by reference to the Consumer Price Index (CPI). As at 30 June 2018 the interest rate applying to Advantage Loans was 2.52% (2.57%, 2016-17). The outstanding value of Advantage Loans at 30 June 2018 was \$74.7 million (\$68.6 million, 2016-17).

For the year ended 30 June 2018 HomeStart received a Community Service Obligation (CSO) subsidy payment of \$3.8 million (\$3.6 million, 2016-17) from the Department of Treasury and Finance for the Advantage Loan subsidy provided.

HomeStart also provides subsidised EquityStart Loans of up to \$50 000 to current Housing SA tenants. The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI. Regular repayments on the EquityStart Loan are optional, and payments can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2018 was \$33.3 million (\$33.6 million, 2016-17).

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

Funding

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

NOTE 2 Significant accounting policies

2.1 Statement of compliance

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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).

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

2.10.1 Cash and cash equivalents

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

Cash is measured at nominal value.

2.10.2 Financial assets

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

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

Loans and receivables

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

Financial assets at fair value through profit or loss

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

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

The net gain or loss includes any increase/decrease in the value of financial asset, any dividend or interest earned on the financial asset.

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

Shared appreciation component of the Breakthrough and Shared Equity Option Loans

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

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

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

Available-for-sale financial assets

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

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

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

2.10.3 Loans and advances

Loans measured at amortised cost

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

2.10.4.2 Intangible assets

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

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

The acquisition of or internal development of software is capitalised only when the expenditure meets the definition (identifiability, control and existence of future economic benefits) and recognition criteria of an intangible asset outlined in AASB 138 *Intangible Assets*, and when the amount of expenditure is greater than or equal to \$1 000.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the useful life of the asset, which is generally between 4 and 10 years.

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

2.10.4.3 Impairment and revaluation

In accordance with Accounting Policy Framework III Asset Accounting Framework:

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

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

2.11 Liabilities

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

2.11.1 Interest-bearing borrowings

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

2.11.2 Lease incentive

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

2.11.3 Payables

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

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

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

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

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

2.11.4 Employee benefits

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

Long-term service benefits

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

Salaries and wages, annual leave and sick leave

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

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

2.12 Other provisions

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

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

2.13 Fair value measurement

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

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

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

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

2.14 Unrecognised contractual commitments and contingent assets and liabilities

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

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

2.15 Insurance

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

2.16 Accounting judgements, estimates and assumptions

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

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

Area of estimate and judgement	Note no.
Investments at fair value through profit or loss – shared appreciation component of the Breakthrough and Shared Equity Option Loan	2.10.2, 33.4, 34.2 & 34.3
Fair value of subsidised loans and advances	2.10.3
Loan origination fees received or receivable	2.8.4
Loan origination fees paid or payable	2.9.2
Provision for impairment of loans and advances	2.10.3
Derivative financial instruments	2.10.5, 33.2.2, 34.2

Home Start Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 3 New and revised accounting standards and policies

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

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

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

Reference	Title and date of standard application	Summary	Application date of standard	Impact on financial statements	Application date for HomeStart
AASB 16	Leases	This new standard introduces a single lessee accounting model. It requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligations to make lease payments. AASB 16 substantially carries forward the lessor accounting requirements in AASB 117	1 January 2019	This new standard significantly changes accounting for lessees requiring recognition of almost all lease arrangements on-balance sheet. HomeStart is currently reviewing its leasing arrangements based on AASB16. The potential impact of this standard is still being assessed. Considering that HomeStart apart from accommodation lease arrangements have no other significant leasing arrangements, it is unlikely that the standard will have material impact on HomeStart's financial result.	1 July 2019

AASB 9 Financial Instruments

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

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

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

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

Home Start Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

i. Classification - Financial Assets

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

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

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

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

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

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

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

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

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

Home Start Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

In assessing whether the contractual cash flows are solely payments of principal and interest, HomeStart will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, HomeStart will consider:

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

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

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

All of HomeStart's retail loans and certain fixed-rate corporate loans contain prepayment features.

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

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

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

ii. Impairment - Financial Assets and loan commitments

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

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

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

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

Home Start Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

Measurement of ECLs

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

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

Financial assets that are credit-impaired are defined by AASB 9 in a similar way to financial assets that are impaired under AASB 139 (see Note 33.2.1).

Definition of Default

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

- the borrower is unlikely to pay its credit obligations to HomeStart in full, without recourse by HomeStart to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to HomeStart.

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

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

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

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

Forward-looking information

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

Home Start Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

HomeStart has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. These key drivers include interest rates, unemployment rates and GDP forecasts. Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years.

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

Impact assessment

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

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

iii. Hedge Accounting

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

iv. Disclosures

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

v. Transition

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 4 Net interest income

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

NOTE 5 Other income

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

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

EquityStart grant funds and CSO subsidy received

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

The Department of Treasury and Finance (DTF) makes a CSO subsidy payment to HomeStart as compensation for the provision of Advantage Loans and credit quality subsidies as well as administering the Nunga Loan program. In addition, on 30 April 2012 the Cabinet approved that DTF would make an additional CSO payment to HomeStart each financial year to enable HomeStart to meet its target pre-tax return on equity (ROE) of 9% (if required). No such payment was received in the financial year ended 30 June 2018 (\$nil, 2016-17).

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 6 Employee benefits expenses

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

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

NOTE 7 Employee remuneration and number of employees

The following table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, termination payments, superannuation contributions, salary sacrifice, payments in lieu of leave, fringe benefits and any fringe benefits tax paid in respect of those benefits. The total remuneration received by these employees for the year was \$3.24 million (\$2.93 million, 2016-17).

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

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

Number of employees

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 8 Key management personnel

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

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

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

(a) Board members

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

Mr	Jim Kouts (Chair)
Mr	Chris Ward (Deputy Chair)
Ms	Sue Edwards
Mr	Darryl Royans
Ms	Carmel Zollo
Ms	Shanti Berggren
Ms	Catherine Anne King (Appointed 31 July 2017)

(b) Other key management personnel

The following persons also held positions of authority and responsibility for planning, directing and controlling the activities of HomeStart, directly or indirectly during the financial year:

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

(c) Key management personnel compensation

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

(d) Remuneration of governing board members

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

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

The total remuneration received and receivable by those governing board members was \$0.28 million (\$0.27 million, 2016-17) which includes fringe benefits and superannuation contributions.

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

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

NOTE 9 Government guarantee fee

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

The guarantee fee calculation methodology was revised in 2016 effective 1 July 2016. In line with the new Government Guarantee Fee Pricing Policy, 1.6% rate applies to legacy debt instruments existing as at 1 July 2016 until their maturity. A guarantee fee rate of 1.56% applies to new debt instruments undertaken during the 2016-17 financial year until their maturity. A guarantee fee rate of 1.88% applies to new debt instruments undertaken from 1 July 2017 to 22 April 2018 and 1.36% for the remainder of the 2017-18 financial year until their maturity.

NOTE 10 Bad and impaired loans expense

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 11 Depreciation and amortisation expense

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

NOTE 12 Other expenses

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

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

The number and dollar amount of consultancies paid/payable (included in "Other expenses") that fell within the following bands:

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

NOTE 13 Auditor's remuneration

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

The amounts disclosed above are inclusive of GST.

Other services

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

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

14.3 Risk exposure

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

NOTE 15 Financial investments – available-for-sale

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 16 Loans and advances

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

16.2 Risk exposure

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

NOTE 17 Other financial assets

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

NOTE 18 Intangible assets

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

The majority of intangible assets were acquired externally directly from software suppliers or through contract arrangements. There were no indications of impairment of intangible assets at 30 June 2018.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 19 Property, plant and equipment

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

Reconciliation of Property, Plant and Equipment

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

	Leasehold improvements \$'000	Other office and computer equipment \$'000	Total \$'000
Carrying amount at 30 June 2016	2 817	565	3 382
Additions – at cost (deemed fair value)	16	189	205
Revaluation of make good asset	40	-	40
Disposals – at cost (deemed fair value)	-	(75)	(75)
Disposals – accumulated depreciation	-	74	74
Depreciation and amortisation	(353)	(201)	(554)
Carrying amount at 30 June 2017	2 520	552	3 072
Additions – at cost (deemed fair value)	20	214	234
Depreciation and amortisation	(313)	(244)	(557)
Carrying amount at 30 June 2018	2 227	522	2 749

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

NOTE 20 Other assets

	2018 \$'000	2017 \$'000
Prepayments	480	378
Total other assets	480	378

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 21 Fair value measurement of non-financial assets

Fair value hierarchy

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

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

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million, or had an estimated useful life that was less than three years, are deemed to approximate fair value.

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

Fair value measurements at 30 June 2018

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

Fair value measurements at 30 June 2017

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

HomeStart's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. During 2018 and 2017, HomeStart had no non-financial asset valuations categorised into level 1 and 2.

Valuation techniques and inputs

Unobservable inputs were used in determining fair value, refer to note 19, and they are subjective. HomeStart considers that the overall valuation would not be materially affected by changes to the existing assumptions. There were no changes in valuation techniques during 2018 and 2017. The following table is a reconciliation of fair value measurements using significant unobservable input (level 3).

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

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

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

NOTE 22 Payables

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

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

22.2 Interest rate and credit risk

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 23 Borrowings

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

All HomeStart borrowings are unsecured.

23.2 Risk exposure

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

NOTE 24 Employee benefits

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

24.2 Calculation of long service leave

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave.

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

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

24.3 Settlement period of long service leave

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 25 Provisions

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

25.2	Provision for dividend	2018	2017
		\$'000	\$'000
	Dividend payable	212	1 423
	Total dividend payable	212	1 423

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

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

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

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

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

NOTE 26 Other liabilities

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

*A liability has been reported to reflect unsettled workers compensation claims. The workers compensation provision is based on actuarial assessment of the outstanding liability as at 30 June 2018 provided by a consulting actuary engaged through the Office for Public Sector (a division of the Department of the Premier and Cabinet). The provision is for the estimated cost of ongoing payments to employees as required under current legislation. HomeStart is responsible for the payment of workers compensation claims.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

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

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

NOTE 27 Equity

General reserve for credit losses

A general reserve for credit losses was created within equity. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes. Amounts in the general reserve for credit losses will not be reclassified to profit or loss.

Derivatives valuation reserve

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

Available-for-sale revaluation reserve

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 28 Unrecognised contractual commitments

28.1 Capital commitments

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

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

Capital expenditure commitments are for upgrades of operational systems.

28.2 Expenditure commitments - software licence commitments

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

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

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

28.3 Operating leases commitments

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

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

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

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

28.4 Commitments to extend credit to customers

Contractual commitments for loans either approved but not settled or settled but not fully drawn at the balance date amounted to \$79.2 million (\$53.8 million, 2016-17). These commitments are expected to be paid in the coming financial year.

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

NOTE 29 **Contingent assets and liabilities**

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

NOTE 30 **Related parties**

HomeStart is controlled by the SA Government.

Related parties of HomeStart include all key management personnel and their close family members and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government. Quantitative information about transactions and balances between HomeStart and other SA Government entities are disclosed in note 32.

Other related party disclosures are included in note 8 Key management personnel.

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

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

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

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

NOTE 31 **Cash flow reconciliation**

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

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

31.3 Reconciliation of liabilities arising from financing activities to financing cash flows

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

NOTE 32 Transactions with SA Government

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

HomeStart Finance

Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

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

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

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NOTE 33 Financial risk management

33.1 Overview

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

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

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

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

HomeStart's Board of directors has overall responsibility for the establishment and oversight of HomeStart's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and Audit Committee to develop and monitor HomeStart's risk management policies. In addition a Board Credit Sub-Committee has been formed to review and recommend approval of individual loan applications which will result in an aggregate exposure to the borrower that exceeds \$1.5 million.

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

Financial risk management is the responsibility of HomeStart's internal Finance department which identify, evaluate and, when feasible and appropriate, hedge financial risks. It operates in accordance with policies approved by the Board and its sub-committees. These written policies cover overall risk management as well as specific areas, such as interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

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

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

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

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33.2 Credit risk

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

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

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

33.2.1 Loans and advances

(a) Credit risk management

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

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

The authority to make credit decisions in accordance with approved policies is delegated by the Board to executive management.

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

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

(b) Risk control and mitigation policies

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

Lending policies

HomeStart's approved lending policies require verification of the customer's income and an assessment of credit worthiness based on credit checks with independent agencies and statistical analysis of the factors most likely to lead to credit default. HomeStart policy is to not undertake lending on a reduced documentation basis or lending which relies in any way on borrowers' self-verification of income.

Collateral

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

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

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

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

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

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

Concentration of counterparty and geographic risk

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

Approximately 22% (23%, 2016-17) of HomeStart's loans by value are secured against properties outside the Adelaide metropolitan area. This represents a risk as the limited market liquidity in country regions as well as the less diversified nature of rural economies can lead to greater volatility in property values. HomeStart currently manages this risk by imposing stricter Loan to Valuation Ratio (LVR) limits when lending in some country locations, and excluding others completely.

At reporting date 33% (34%, 2016-17) of HomeStart's loans by value were secured against properties in the City of Salisbury and the City of Playford. HomeStart's exposure to risk in this geographic area is managed through lending policies as well as obtaining and managing collateral, as described above.

Higher LVR loans

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

Loan Provision Charge

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

(c) *Credit risk measurement*

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

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

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

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

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

HomeStart's maximum exposure to credit risk has been recognised in the Statement of Financial Position as the carrying amount, net of any provisions for impairment of \$2 011.5 million (\$1 842.2 million, 2016-17).

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

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

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

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

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

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

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

(1) Loans and advances renegotiated

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

HomeStart assesses arrears capitalisation on a case-by-case basis and decisions are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are reviewed periodically. Also HomeStart may reduce the required loan repayment for reasons relating to financial difficulties of a customer provided the projected loan term is within the normal lending criteria.

The gross carrying amount of loans that have been renegotiated under these criteria within the last 12 months that may otherwise be past due or impaired totalled \$5.4 million as at 30 June 2018 (\$6.4 million, 2016-17).

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(2) Past due but not impaired

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

(3) Impaired loans

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

33.2.2 Derivative financial liabilities

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

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

(b) Maximum exposure to credit risk

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

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

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

33.3 Liquidity risk

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

33.3.1 Liquidity risk management

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

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HomeStart's liquidity management process is carried out and monitored by HomeStart's internal Finance department and includes:

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

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

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

33.3.2 Funding approach

HomeStart is required to use SAFA as its sole counterparty for all funding transactions. The arrangement gives HomeStart access to a significant volume of liquidity, restricted by an approved borrowing limit of \$2 105 million as at 30 June 2018 (\$2 105 million, 2016-17).

33.3.3 Exposure to liquidity risk

(a) *Non-derivative cash flows*

HomeStart's exposure to liquidity risk is managed by adherence to ALCO approved ratios and requirements, which include a requirement that HomeStart's debt, subject to refinancing in the next 12 month period, is to be limited to 40% (40%, 2016-17) of total debt outstanding.

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

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

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

2018	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000	Carrying value \$'000
Liabilities							
Payables	4 211	-	-	-	-	4 211	4 211
Borrowings	256 020	10 564	45 703	1 767 293	-	2 079 580	1 897 797
Other financial liabilities	-	1 454	1 665	-	-	3 119	3 119
Total liabilities (contractual maturity dates)	260 231	12 018	47 368	1 767 293	-	2 086 910	1 905 127

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2017	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000	Carrying value \$'000
Liabilities							
Payables	4 177	-	-	-	-	4 177	4 177
Borrowings	87 551	9 894	44 044	1 564 306	224 565	1 930 360	1 729 725
Other financial liabilities	-	1 740	3 162	-	-	4 902	4 902
Total liabilities (contractual maturity dates)	91 728	11 634	47 206	1 564 306	224 565	1 939 439	1 738 804

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

(b) *Derivative cash flows*

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

The table below analyses HomeStart's derivative financial liabilities at fair value that will be settled on a net basis into relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 1 month \$'000	1-3 months \$'000	3-12 months \$'000	1-5 years \$'000	Over 5 years \$'000	Total \$'000	Carrying value \$'000
2018	(107)	(242)	(968)	(1 394)	(29)	(2 740)	(2 377)
2017	(184)	(364)	(1 429)	(2 469)	(206)	(4 652)	(3 847)

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

(c) *Off balance sheet*

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

33.4 Market risk

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

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

33.4.1 Market risk management

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

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

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

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

33.4.2 Interest rate risk

(a) *Risk control and mitigation policies*

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

HomeStart engages in derivative financial instruments to hedge interest rate risk within its portfolio. These derivatives include interest rate swaps.

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

As at 30 June 2018, HomeStart had floating/fixed swaps with a notional value of \$255.5 million (\$157.5 million, 2016-17) with fixed rates varying between 1.49% and 6.96% (1.49% and 7.21%, 2016-17).

Periods to maturity of the interest rate swap contracts are disclosed at note 33.3.3(b).

(b) *Market rate risk*

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

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

ALCO monitor this process on a monthly basis.

(c) *Hedge accounting*

Variable rate debt used to fund fixed rate loans to customers is hedged by interest rate swaps, which have been designated as cash flow hedges, enabling the portion of the effective gain or loss to be recognised in equity.

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

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

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

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33.4.3 Investments price risk

(a) *Risk control and mitigation policies*

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

(b) *Maximum exposure to investments price risk*

HomeStart's maximum exposure to investments price risk has been recognised as the carrying amount at reporting date (note 14).

(c) *Sensitivity analysis*

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

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

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

33.4.4 Breakthrough and Shared Equity Option Loan property price risk

(a) *Risk control and mitigation policies*

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

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

(b) *Maximum exposure to property price risk*

HomeStart's maximum exposure to property price risk has been recognised as the carrying amount at balance date (note 14).

(c) *Sensitivity analysis*

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

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

33.4.5 Currency risk

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

NOTE 34 Fair value and categorisation of financial instruments

34.1 Fair value and categorisation of financial instruments

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

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

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

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

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

^[2]The fair value of borrowings is determined using SAFA market valuation, which is classified as level 2 in the fair value hierarchy. The market value by SAFA was calculated using mid rates as at close of business 30 June 2018.

34.2 Fair value estimation

(a) *Derivatives*

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

(b) *Loans and advances to customers*

The fair value of loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows of non-subsidised loans are discounted using the interest rate payable by the customer, which is at market rate. Subsidised loans are discounted using a risk free rate of interest, based on four or seven year (for Advantage Loans) and 10 year (for EquityStart Loans) SAFA bonds.

(c) *Investments*

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

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

Note 2.10.2 describes the accounting policy adopted in relation to the shared appreciation component of the Breakthrough and Shared Equity Option Loans.

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

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

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

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

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

(e) *Borrowings*

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

34.3 Hierarchical classification of financial assets measured at fair value

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

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

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

2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets measured at fair value				
SAFA Cash Management Fund (Wyatt)	-	989	-	989
Breakthrough Loan (shared appreciation component)	-	-	54 226	54 226
Shared Equity Option Loan (shared appreciation component)	-	-	135	135
Total financial assets measured at fair value	-	989	54 361	55 350

Financial liabilities measured at fair value				
Derivative financial instruments	-	(2 377)	-	(2 377)
Total financial liabilities measured at fair value	-	(2 377)	-	(2 377)

2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets measured at fair value				
SAFA Cash Management Fund (Wyatt)	-	826	-	826
Breakthrough Loan (shared appreciation component)	-	-	59 822	59 822
Total financial assets measured at fair value	-	826	59 822	60 648

Financial liabilities measured at fair value				
Derivative financial instruments	-	(3 847)	-	(3 847)
Total financial liabilities measured at fair value	-	(3 847)	-	(3 847)

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34.4 Reconciliation of Level 3 fair value measurements

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

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

NOTE 35 Events after balance date

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

NOTE 36 Segment reporting

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

NOTE 37 Economic dependency

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