# Interstar Millennium Series 2002-1G Trust
## ABN 45 632 683 980

General Purpose
Annual Financial Report for the year ended 30 June 2019

# Contents to Annual Financial Report

# Directors' report

The Directors of Challenger Securitisation Management Pty Limited (the Manager) submit their report, together with the general purpose financial report of Interstar Millennium Series 2002-1G Trust (the Trust) for the year ended 30 June 2019.

## Directors and Company Secretaries

The names and details of the Directors and officers of the Manager holding office during the financial year and up to the date of this report are listed below. Directors and officers were in office for this entire period unless otherwise stated.

| | | |
|---|---|---|
| A L Tobin | Director | |
| G J Buchanan | Director | |
| A R Bofinger | Director | (Appointed: 1 July 2018) |
| A J Brown | Company secretary | |
| H A Kittos | Company secretary | |
| N L McRae | Company secretary | |
| J Y Yap | Company secretary | |

## Trust and Manager information

The Trust is an Australian registered trust. The Manager is incorporated and domiciled in Australia. The registered office of the Manager is Level 2, 5 Martin Place, Sydney, NSW 2000.

## Principal activities and significant changes in the state of affairs

The principal activity of the Trust during the course of the financial year was:

- the collection of interest and principal on issued residential mortgages and the servicing of securitised debt obligations.

No new loans were originated in the period.

There have been no significant changes in the state of affairs of the Trust during the year.

## Operating and financial review

The profit after tax attributable to unitholders for year ended 30 June 2019 was $801,000 (2018: $1,106,000).

As at 30 June 2019, the operating profit as a percentage of the average mortgage assets balance was 3.1% (2018: 3.60%).

## Likely developments and expected results

The Trust will continue to manage the orderly run-off of its mortgage assets and securitised liabilities.

At this time the Directors are not aware of any developments likely to have a significant effect upon the operations or the result of the Trust in subsequent financial years, which have not been adequately dealt with in this report or in the financial report.

## Significant events after the balance date

At the date of this financial report, no matter or circumstance has arisen that has affected, or may significantly affect the Trust's operations, the results of those operations or the Trust's state of affairs in future financial years which has not already been reflected in this report.

## Indemnification and insurance of directors and officers

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of the Manager or the Manager. So long as the officers of the Manager act in accordance with the Trust Deed and the law, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust.

# Directors' report (continued)

## Indemnification of auditors

To the extent permitted by law, the ultimate parent, Challenger Limited, has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement. The primary purpose of the indemnity is to indemnify Ernst & Young for any loss that they may suffer as a result of a false representation given by the Trust where a claim is made against Ernst & Young by a third party.

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to auditors of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

There is a caveat if Ernst & Young's loss results from their own negligence or wrongful or wilful acts or omissions then no indemnification is provided. No payment has been made to indemnify Ernst & Young during or since the financial year.

## Rounding

The monetary amounts contained in the financial report have been rounded to the nearest $1,000, unless otherwise stated, under the option available to the Trust under Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

## Authorisation

Signed in accordance with a resolution of the Directors of Challenger Securitisation Management Pty Limited.

G J Buchanan
Director
Sydney

28 August 2019

# Statement of comprehensive income

## For the year ended 30 June

| | Notes | 2019 $000 | 2018 $000 |
|---|---|---|---|
| Revenue | 3 | 1,664 | 2,056 |
| Expenses | 4 | (100) | (97) |
| Finance costs | | (763) | (853) |
| **Profit for the year** | | **801** | **1,106** |
| | | | |
| Movement in undistributed income | | (192) | (330) |
| Distributions to unitholders during the year | | (609) | (776) |
| **Total comprehensive income/(loss) for the year** | | - | - |

The statement of comprehensive income should be read in conjunction with the accompanying notes.

# Statement of financial position

## As at 30 June

| | Notes | 2019 $000 | 2018 $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 7 | 975 | 1,012 |
| Receivables | 5 | 207 | 38 |
| Mortgage assets | 8 | 24,066 | 28,214 |
| **Total assets** | | **25,248** | **29,264** |
| | | | |
| **Liabilities** | | | |
| Payables | 6 | 49 | 68 |
| Derivative financial instruments | | 3 | 1 |
| Interest-bearing financial liabilities | 12 | 24,882 | 29,073 |
| Undistributed income | | 314 | 122 |
| **Total liabilities** | | **25,248** | **29,264** |
| | | | |
| **Net assets** | | - | - |

The statement of financial position should be read in conjunction with the accompanying notes.

# Statement of changes in equity

| | Total equity $000 |
|---|---|
| **As at 1 July 2018** | - |
| **Balance at 30 June 2019** | - |

| | Total equity $000 |
|---|---|
| **As at 1 July 2017** | - |
| **Balance at 30 June 2018** | - |

The statement of changes in equity should be read in conjunction with the accompanying notes.

# Statement of cash flows

## For the year ended 30 June

| | Notes | 2019 $000 | 2018 $000 |
|---|---|---|---|
| **Operating activities** | | | |
| Interest received from mortgage loans | | 1,530 | 1,793 |
| Interest received from cash and cash equivalents | | 13 | 14 |
| Payments to vendors | | (89) | (103) |
| Interest paid | | (779) | (857) |
| **Net cash flows from operating activities** | 9 | **675** | **847** |
| **Investing activities** | | | |
| Net mortgage assets received | | 4,088 | 5,444 |
| **Net cash flows from investing activities** | | **4,088** | **5,444** |
| **Financing activities** | | | |
| Distributions paid | | (609) | (776) |
| Repayment of borrowings - interest bearing financial liabilities | | (4,191) | (5,349) |
| **Net cash flows used in financing activities** | | **(4,800)** | **(6,125)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(37)** | **166** |
| Cash and cash equivalents at the beginning of the year | | 1,012 | 846 |
| **Cash and cash equivalents at the end of the year** | 7 | **975** | **1,012** |

The statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the financial statements

## 1. Basis of preparation and significant accounting policies

The financial report of Interstar Millennium Series 2002-1G Trust (the Trust) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 28 August 2019.

### 1.1 Basis of preparation

The Interstar Millennium Series 2002-1G Trust was constituted on 9 July 2002. The maturity date of the Trust is 7 July 2034.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and (except where explicitly stated below) has been prepared on a historic cost basis, is presented in Australian dollars and has been rounded to the nearest $1,000.

The accounting policies set out below have been consistently applied to all periods presented.

### Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### New and revised accounting standards and interpretations

There have been no material changes due to new or amended accounting standards. Where applicable, prior year balances have been reclassified to conform with the current year presentation.

***AASB 9 Financial Instruments***
AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for the Trust from 1 July 2018.

The standard makes changes to the classification of financial assets for the purpose of determining their measurement basis, as well as the recognition of changes in fair values. The standard replaces the incurred loss model of AASB 139 with a new expected loss model which can result in the acceleration of impairment recognition on financial instruments.

The standard requires entities to account for expected credit losses on financial instruments at the point at which the financial instruments are first recognised and to estimate the expected loss applicable to those financial instruments over the period for which they are held. In addition, there are also significant changes to hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and associated disclosures.

The Trust has performed an assessment and concluded that no transitional adjustments were required as a result of complying with the new requirements.

***AASB 15 Revenue from Contracts with Customers***
The new revenue standard establishes a single, comprehensive framework for revenue recognition and is effective for the Trust from 1 July 2018 and replaces the previous revenue standards AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The standard does not apply to leases, financial instruments or insurance contracts. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The Trust has performed an assessment on existing revenue streams and concluded that no transitional adjustments were required as a result of complying with the new requirements.

### Changes in accounting policy or disclosure

Accounting policies have been updated to reflect the requirements of the new accounting standards which became effective from 1 July 2018. There was no significant changes in the entity's results due to the change in accounting policy.

# Notes to the financial statements (continued)

## 1. Basis of preparation and significant accounting policies (continued)

### 1.1 Basis of preparation (continued)

### Rounding of amounts

Unless otherwise stated, the monetary amounts contained in the financial report have been rounded to the nearest $1,000 under the option available to the Trust under Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

### 1.2 Summary of significant accounting policies

### a) Revenue and expenses

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the Trust expects to be entitled in exchange for those goods and services. Revenues and expenses are recognised on an accrual basis. The following specific policies are applied:

- Management fee revenue is recognised when the services are provided.
- Gains or losses arising from changes in the fair value of financial instruments classified as fair value through profit and loss are recognised as revenue in the statement of comprehensive income when the change in value is recognised in the statement of financial position.
- Interest revenue is recognised as it accrues using the effective interest rate method, and is shown net of movements in the credit loss provisions and realised movements on hedge derivatives. Other revenue arising from fees charged to mortgagors is recognised as services are provided.

Expenses are recognised on an accrual basis. The following specific policies applied:

- The Servicer, Manager and the Trustee of the Trust charge fees. Payment dates are specified in the trust deed. The Servicer is entitled to a fee of 0.20% of the weighted average value of the interest bearing liability balance over the period between payment dates. The Manager fee is equal to 0.05% of the weighted average value of the interest bearing liability balance over the period between payment dates. The Trustee charges an annual fee. All amounts are recognised on an accruals basis.

### b) Finance costs

Finance costs represent interest incurred on interest bearing financial liabilities (primarily the securitised residential mortgage-backed securities issued by the special purpose vehicles, bank loans and other borrowings) and are recognised as an expense in the period in which they are incurred.

### c) Taxes

***Goods and services tax (GST)***

Revenues, expenses and assets are recognised net of the amount of GST, except when the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

### d) Cash and cash equivalents

Cash and cash equivalents are financial assets with fixed or determinable payments and comprise of cash at bank and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are recognised at fair value. For the purposes of the statement of cash flows, cash and cash equivalents are stated net of any outstanding bank overdrafts.

# Notes to the financial statements (continued)

## 1. Basis of preparation and significant accounting policies (continued)

## 1.2 Summary of significant accounting policies (continued)

### e) Receivables

Receivables are recognised at amortised cost using the effective interest method, less any allowance for expected credit losses. The entity has applied a simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, receivables have been grouped based on days overdue.

### f) Mortgage assets

Mortgage assets consist of mortgage loans made for terms not exceeding 30 years and secured by property mortgages based on independent valuations obtained at the inception of the loan. Mortgage assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Mortgage loans are initially recognised at cost, being the fair value of the amount transferred to the mortgagor plus transaction costs. After initial recognition, these investments are measured at amortised cost using the effective interest rate method, less impairment.

***Impairment assessment***

The Trust has determined that its impairment assessment is compliant with the requirements of AASB 9, this standard replaced the incurred loss model of AASB 139 with a new expected credit loss model (ECL). The standard requires entities to account for expected credit losses on mortgages at the point at which the mortgage is first recognised and to estimate the expected loss applicable to those mortgages over the period for which they are held.

When an impairment adjustment is required the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'impairment expense'. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a previous write-off is later recovered, the recovery is credited to the 'impairment expense'.

Interest income on an impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The impact of adoption of the expected credit loss model on the mortgage assets has been assessed as immaterial because the historical provisioning methodology of the Trust is materially consistent with the provision methodology calculated under AASB 9 using the expected credit loss model and therefore no transitional adjustments were required.

### g) Derivative financial instruments and hedge accounting

The Trust enters into derivative financial instruments such as interest rate swaps to hedge its exposures to interest rate risk. The Trust does not use derivative financial instruments for speculative purposes. All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

### h) Payables

Payables represent unsecured non-derivative, non-interest bearing financial liabilities in respect of goods and services provided to the Trust prior to the end of the financial year. They include accruals, trade and other creditors and are recognised at amortised cost.

## Notes to the financial statements (continued)

### 1. Basis of preparation and significant accounting policies (continued)

### 1.2 Summary of significant accounting policies (continued)

#### i) Interest bearing financial liabilities

The interest bearing financial liabilities of the Trust are debt instruments (Notes) securitised using the mortgage assets of the Trust as collateral. The Notes are initially recognised at cost, being the fair value of the consideration received net of issue costs. After initial recognition, the Notes are subsequently measured at amortised cost using the effective interest method. Any Notes issued in foreign currencies are not subsequently translated at reporting dates as the Notes valuation is offset by a corresponding derivative valuation. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

#### j) Undistributed income

Units on issue are represented by one residual capital unit and one residual income unit issued at a face value of $10 each. The holder of the residual capital unit has the right to receive the entire beneficial interest in the Trust upon termination. The holder of the residual income unit has the right to receive all of the ongoing net profit, or residual income, of the Trust.

As the Trust has a defined termination date, both units are classed as debt instruments and, as such, the Trust has no equity. As a result, the funds contributed by the unitholder are recognised as a liability. In addition, all the profit, or residual income, of the Trust payable to the residual income unitholder is classified as an undistributed income liability at the Statement of financial position date.

### 2. Significant accounting judgements, estimates and assumptions

The carrying values of amounts recognised in the statement of financial position are often based on estimates and assumptions of future events. There are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

The preparation of the Trust's financial statement requires the Manager to make judgements, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

***Provisions***

The impairment provisions represent the Trust's best estimate of the expected credit losses in the mortgage assets as at the reporting date based on experienced judgement.

The use of judgement and reasonable estimates is considered by both the Trust and the Manager to be an essential part of the process for calculating the impairment provision.

# Notes to the financial statements (continued)

## 3. Revenue

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Interest revenue | 1,654 | 2,038 |
| Unrealised (losses)/gains on interest rate derivatives | (1) | 2 |
| Management fee revenue | 11 | 16 |
| **Total revenue** | **1,664** | **2,056** |

## 4. Expenses

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Expenses | 100 | 97 |
| **Total expenses** | **100** | **97** |

## 5. Receivables

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Amounts recoverable from related entities | 204 | 33 |
| Other receivables | 3 | 5 |
| **Total receivables** | **207** | **38** |

## 6. Payables

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Trade creditors and accruals | 6 | 7 |
| Accrued interest | 40 | 55 |
| Other creditors | 3 | 6 |
| **Total payables** | **49** | **68** |

# Notes to the financial statements (continued)

## 7. Cash and cash equivalents

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Cash at bank | 52 | 297 |
| Deposits at call | 923 | 715 |
| **Total cash and cash equivalents** | **975** | **1,012** |

## 8. Mortgage assets

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| Mortgage assets | 24,107 | 28,377 |
| Less: Impairment provision | (41) | (163) |
| | **24,066** | **28,214** |

## 9. Reconciliation of profit to operating cash flow

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| **Cash flow reconciliation** | | |
| **Profit for the year** | 801 | 1,106 |
| **Adjusted for** | | |
| Add back loan write offs | 12 | (4) |
| Unrealised (gain)/loss on derivative financial instruments | 1 | (2) |
| **Change in operating assets and liabilities** | | |
| Decrease/(increase) in receivables | 3 | 1 |
| Increase/(decrease) in payables | (19) | (6) |
| Movement in provisions for mortgage assets | (123) | (248) |
| **Net cash flows from operating activities** | **675** | **847** |

## 10. Financial risk management

The principal activity of the Trust is to offer residential mortgage finance funded via the issuance of collateralised securities. The Trust manages the yield on the mortgage assets so as to ensure sufficient capital resources exist to enable payment of all expense obligations as and when they fall due.

The type and nature of financial risks the operations of the Trust are exposed to are detailed below:

### Interest rate risk

Fluctuations in the bank bill swap rate (BBSW) impact the cost of funding and therefore the net interest margin (i.e. the difference between interest charged and interest incurred) earned by the Trust.

The Manager manages this risk by actively adjusting the interest rate charged to borrowers if there is a sustained adverse differential between rates charged and rates incurred. However, this can only be applied to floating rate mortgages; to the extent that customers fix their interest rates, the Trust remains exposed to any adverse margin spread.

To mitigate this risk, the Trust enters into interest rate derivatives that swap the fixed rate for a floating rate on a notional value equal to the fixed rate mortgages.

The Trust's sensitivity to movements in interest rates in relation to the value of interest bearing financial assets and liabilities is shown in the table below. All material underlying exposures and related hedges are included in the analysis:

# Notes to the financial statements (continued)

## 10. Financial risk management (continued)

### Interest rate risk (continued)

| | 30 June 2019 $000 | 30 June 2018 $000 |
|---|---|---|
| **Movement in weighted average cost of funds:** | | |
| + 100 basis points (bps) | **(249)** | **(291)** |
| - 100 basis points (bps) | **249** | **291** |

The methodology applied in the sensitivity analysis did not change from the previous period. As shown above, a 100 bps movement in interest rates would affect the Trust's operating profit; however, exposure would be limited to approximately three months as the Manager has the opportunity to reprice the variable loans in the mortgage portfolio and derivatives could be purchased to match the fixed portion by the next monthly payment date.

### Liquidity risk

Liquidity risk is the risk that the Trust will not have sufficient available cash resources to meet payments as and when they fall due. The Trust is not exposed to significant liquidity risk as (subject to the comments below in respect of settlement risk) payments of interest and principal to note holders are only made on receipt of principal and interest from mortgage holders. Surplus capital is maintained in liquid cash, cash equivalent investments and deposits to meet payments to suppliers.

The table below summarises the expected maturity profile of the Trust's undiscounted financial liability repayments:

| **30 June 2019** *Financial liabilities* | 1 year or less $000 | 1-3 years $000 | 3-5 years $000 | > 5 years $000 | Total $000 |
|---|---|---|---|---|---|
| Payables | 49 | - | - | - | 49 |
| Interest bearing financial liabilities | 7,290 | 9,490 | 5,077 | 4,778 | 26,635 |
| Derivative financial liabilities | 1 | 2 | - | - | 3 |
| | 7,340 | 9,492 | 5,077 | 4,778 | 26,687 |
| **30 June 2018** | | | | | |
| *Financial liabilities* | | | | | |
| Payables | 68 | - | - | - | 68 |
| Interest bearing financial liabilities | 8,512 | 11,088 | 6,066 | 5,970 | 31,636 |
| Derivative financial liabilities | - | 1 | - | - | 1 |
| | 8,550 | 11,089 | 6,066 | 5,970 | 31,705 |

### Credit risk exposures

Credit risk includes both default and counterparty risk. Default risk is the risk that the mortgage holders fail to remit payment. Principal and interest receivables against mortgage assets are 100% covered by primary lender's mortgage insurance (LMI) policies. These insurance policies insure the Trust against the risk of default by mortgage holders. Principal and interest receivables may not be covered by LMI in circumstances where the LMI provider disputes the claim. The Trust maintains sufficient cash and other resources to meet the residual credit default risk and to protect note holders from the liquidity impact of the timing difference between lodgement and receipt of LMI claims.

Counterparty risk is the risk of losses resulting from a default by either LMI insurers or counterparties to the Trust's derivatives contracts. The financial strength of each LMI insurer is at least A+, as rated by Standard & Poor's. Derivatives were only entered into with AA- or higher rated financial institutions. However, over time these institutions have suffered downgrades. As a result, derivatives are currently provided by BBB- or higher rated financial institutions. At reporting date, the Trust knows of no significant concentrations of counterparty risk.

The Trust is funded via securitised residential mortgage-backed securities (RMBS). As a result, the Trust is not exposed to significant credit risk on its mortgage assets as this is borne by the RMBS holders. The credit risk of the mortgage assets has therefore been taken as being equivalent to that of the RMBS.

The table below provides information regarding the maximum credit risk exposure of the Trust at the balance date. The analysis classifies the assets according to the internal credit ratings. Investment grade assets are rated above BBB- (based on Standard & Poor's methodology).

# Notes to the financial statements (continued)

## 10. Financial risk management (continued)

### Credit risk exposures (continued)

| | Equivalent credit rating Investment grade | | | | |
|---|---|---|---|---|---|
| | AAA | AA | A | BBB | Total |
| **30 June 2019** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Cash and cash equivalents | 975 | - | - | - | 975 |
| Mortgage assets | - | - | - | 24,066 | 24,066 |
| | 975 | - | - | 24,066 | 25,041 |
| **30 June 2018** | | | | | |
| Cash and cash equivalents | 1,012 | - | - | - | 1,012 |
| Mortgage assets | - | - | - | 28,214 | 28,214 |
| | 1,012 | - | - | 28,214 | 29,226 |

The credit quality of all financial instruments is consistently monitored in order to identify any adverse changes.

The following table gives information regarding the carrying value of the Trust's mortgages that are neither past due nor impaired, an ageing analysis of those mortgages that are past due but not impaired and those mortgages that are past due and impaired as at the Statement of financial position date:

| | | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | 0-1 months | 1-3 months | 3-6 months | Past due and impaired | Total | Fair value of collateral held |
| **30 June 2019** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Mortgage assets | 22,055 | 331 | 1,572 | 108 | - | 24,066 | 47,750 |
| **30 June 2018** | | | | | | | |
| Mortgage assets | 27,190 | 278 | 592 | 154 | - | 28,214 | 53,946 |

Impairment losses are recognised if there is objective evidence of one or more loss events having occurred after the initial recognition of the loan, and the impact of the loss event can be reliably measured.

The impairment loss is estimated as the difference between the carrying amount of the loan and the present value of future expected cash flows discounted at the loan's original effective interest rate, adjusted for LMI coverage.

In the event of default, in compliance with the terms of the mortgage contract, the Trust may take possession of the mortgaged property; the Trust can subsequently sell the property as a recovery action towards settlement of the outstanding mortgage.

## 11. Fair value measurement

Fair value reflects the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of financial assets and liabilities that are actively traded in organised financial markets are determined by reference to quoted market bid and ask prices at the close of business at Statement of financial position date.

The financial report has been prepared on a historic cost basis with the exception of derivative financial instruments. The difference between the carrying amount (i.e. amortised cost) and fair value for loans and receivables and interest bearing liabilities is disclosed below. Fair value is determined using a discounted cash flow model adjusting expected future mortgage and liability cash flows for prepayment and other assumptions as well as applying current applicable credit margins to the discount rates used. The carrying value of all other assets and liabilities approximate fair value.

# Notes to the financial statements (continued)

## 11. Fair value measurement (continued)

| Difference between amortised cost (carrying value) and fair value | Carrying value 30 June 2019 $'000 | Fair Value 30 June 2019 $'000 | Carrying value 30 June 2018 $'000 | Fair Value 30 June 2018 $'000 |
|---|---|---|---|---|
| Loans and receivables | 24,066 | 24,443 | 28,214 | 28,833 |
| Interest bearing liabilities | 24,882 | 23,510 | 29,073 | 27,712 |

Mortgage assets and related IBL's are predominantly classified as Level 3 in a fair value hierarchy. There have been no transfers in or out of level 3 during the financial year.

### Derivative financial instruments

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on each Statement of financial position date. Where no such market exists, valuation models that utilise both internal and external inputs are used to determine fair value. Financial instruments are split into the following categories depending on the level of observable inputs into the models used to determine fair value:

- Level 1 unadjusted quoted prices in active markets.
- Level 2 valuation inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirect (i.e. derived from prices).
- Level 3 valuation inputs or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments as described previously have been classified as Level 2 based on the availability of observable inputs used to determine their fair value.

As described above, the Trust hedges exposure to interest rate risk using interest rate swaps. The Trust holds the following derivative financial instruments:

| | Notional | Fair value | Fair value | Maturity profile of fair value | | | |
|---|---|---|---|---|---|---|---|
| | value | assets | liabilities | <1yr | 1-3yrs | 3-5yrs | >5yrs |
| **30 June 2019** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Interest rate swaps | 204 | - | (3) | (1) | (2) | - | - |
| **30 June 2018** | | | | | | | |
| Interest rate swaps | 204 | - | (1) | - | (1) | - | - |

## 12. Financial assets and financial liabilities

### Financial liabilities: Interest-bearing financial liabilities

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| | $000 | $000 |
| Class B Notes | 24,882 | 29,073 |
| **Total interest-bearing financial liabilities** | **24,882** | **29,073** |

## 13. Related party disclosures

The Manager of the Trust is Challenger Securitisation Management Pty Ltd, the Servicer is Challenger Mortgage Management Pty Ltd and the Trustee is Perpetual Trustees Victoria Limited. Fees paid to these related parties were as follows:

| | 2019 $000 | 2018 $000 |
|---|---|---|
| Servicer fees | 54 | 65 |
| Manager fees | 14 | 16 |
| Trustee fees | 7 | 8 |

# Notes to the financial statements (continued)

## 13. Related party disclosures (continued)

The key management personnel are the Directors of the Manager:

| | | |
|---|---|---|
| A L Tobin | Director | |
| G J Buchanan | Director | |
| A R Bofinger | Director | (Appointed: 1 July 2018) |

The Trust pays no compensation to key management personnel.

Current amounts receivable from related parties (as disclosed in Note 5 Receivables) are amounts due from the central bank account used to manage mortgage payments for the Interstar/Challenger Millennium Series Trusts.

As at the Statement of financial position date, CMM NIM Trust No. 6 (a commonly-controlled entity with both the Manager and the Servicer) holds the residual income unit in the Trust.

## 14. Commitments and contingencies

The Company does not have any contingent liabilities, contingent assets and credit commitments as at 30 June 2019 (2018: nil).

## 15. Remuneration of auditor

The auditor of Interstar Millennium Series 2002-1G Trust is Ernst & Young.

A related company, Challenger Group Services Pty Limited paid the remuneration of the auditor for the Trust as part of the Challenger Limited consolidated Group.

## 16. Subsequent events

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

- the Trust's operations in future financial years; or
- the results of those operations in future financial years; or
- the Trust's state of affairs in future financial years.

# Directors' declaration

In accordance with a resolution of the Directors of Challenger Securitisation Management Pty Limited (the Manager), I declare that, in the opinion of the Directors:

(a) the financial statements and notes of Interstar Millennium Series 2002-1G Trust are prepared in accordance with the accounting policies described in the Notes to the financial statements, including:

(i) giving a true and fair view of the financial position of the Trust as at 30 June 2019 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Note 1.

(b) the financial statements and notes of the Trust also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 1.1; and

(c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the board

G J Buchanan
Director
Sydney
28 August 2019

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# Independent Auditor's Report to the unitholders of Interstar Millennium Series 2002-1G Trust

## Opinion

We have audited the financial report of Interstar Millennium Series 2002-1G Trust (the "Trust"), which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of the Trust.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Trust as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

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## Mortgage Assets Provision

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As described in Note 1 *Basis of preparation and significant accounting policies* and Note 8 *Mortgage assets*, the Trust records an impairment provision in relation to bad and doubtful debts to carry mortgage assets at its recoverable amount. The provision is determined under application of AASB 9 *Financial Instruments*.<br><br>This was a key audit matter due to the judgement involved in determining the provision required for bad and doubtful debts.<br><br>The key area of judgement relates to the assumptions used by the Trust Manager in their credit loss model, used to estimate the provision amount, including historical loss experience and the need to apply additional overlays to take account of emerging trends and where models may fail to fully capture all risks in the loan portfolio. | Our audit procedures included the following:<br>▸ Assessed the modelling techniques and methodology applied by management to determine the required provision, considering the requirements of Australian Accounting Standards.<br>▸ Tested the effectiveness of the controls over the data used to estimate the provisions for doubtful debts, including transactional data captured at loan origination and arrears reporting, storage of data in data warehouses and interfaces to the credit loss model.<br>▸ Compared the material modelling assumptions to supporting evidence and market practices, including probability of default, future interest rates, risk of future property devaluations and selling costs.<br>▸ Assessed the basis for and data used to estimate overlays.<br>▸ Assessed the adequacy of the disclosures in the Financial Report.<br><br>We also involved our valuation specialists in the above procedures, where appropriate. |

## Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the Directors for the Financial Report

The directors of Challenger Securitisation Management Pty Limited (the "Trust Manager") are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' 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 Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease 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.

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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young
Sydney
28 August 2019