Annual Financial Report

RAC Finance Limited

For the year ended 30 June 2019

RAC Finance Limited
ABN 77 009 066 862
Australian Credit Licence 387972

Finance
For the better

RAC Finance Limited ABN 77 009 066 862
Annual report - 30 June 2019

Contents

Directors' report

Your Directors present their report on the company for the year ended 30 June 2019.

Directors

Alden Halse	Chairman
Terry Agnew	Executive Director, Chief Executive Officer (retired from the Board 1 November 2018)
Dennis Banks	
Helen Cook	
Andrew Crane	
Dalton Gooding	
Timothy Shanahan	
Robert Slocombe	Executive Director, Chief Executive Officer (appointed 1 November 2018)
Jim Walker	

Principal activities

During the period the principal activity of the company was the provision of finance in the form of consumer and property development loans. Examples of consumer loans include car, personal, travel and debt consolidation loans. The company also provides a fixed term investment product.

The company employed 35 (2018: 32) employees as at 30 June 2019.

Review of operations

Market and economic conditions for the car loan and property development finance markets were stable during the year, with the company's focus to maintain liquidity and a conservative credit risk profile. Significant investment continues in developing the skills of the sales and distribution network, supported by upgrades to associated infrastructure, to position the company for future growth. Support for the company's investment notes remained strong with high customer retention rates.

The profit from ordinary activities after income tax amounted to $4,354,732 (2018: $2,507,169).

Loans settled during the year decreased to $192,844,997 (2018: $194,197,769).

Revenue and fee income totalled $23,886,625 (2018: $19,609,931).

Average loans and advances for the year were $287,936,135 (2018: $227,831,005).

A capital contribution of $10,000,000 (2018: $5,000,000) was received from RACWA Holdings Pty Ltd.

Dividends

No dividends were paid to RACWA Holdings Pty Ltd during the financial year.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

On 2 September 2019, a dividend of $500,000 was declared from retained earnings. The dividend has not been provided for in the 30 June 2019 financial statements.

There have been no significant events subsequent to balance sheet date.

Likely developments and expected results of operations

There are no likely developments which will significantly impact the expected results of the operations of the economic entity.

Environmental regulation

The company is not affected by any significant environmental regulation in respect of its operations.

Directors' and executives' emoluments

During or since the financial year no director of the company has received, or become entitled to receive, a benefit other than a benefit included in the accounts, by reason of a contract entered into by the company or by a body corporate that was related to the company with:

- a director, or
- a firm of which a director is a member, or
- a company in which a director has substantial financial interest.

Remuneration report

This remuneration report outlines the director and executive remuneration arrangements of the company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel of the company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company, directly or indirectly, including any director (whether executive or otherwise) of the parent company and includes the executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives and general managers of the Company and the Group.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non executive directors' fees and payments are reviewed annually by the Board. The Board has sought the advice of independent remuneration consultants to ensure non executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2018 and is due for review in October 2019. Directors' fees are paid by the parent entity as part of a composite fee which includes the company. A component of the fee is allocated to the company for services rendered by the directors. The company is not charged for these fees. Executive Directors do not receive directors' fees.

Executive pay

The executive pay and reward framework has three components:
• base pay and benefits;
• performance incentives; and
• other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non financial benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with market rates. An executive's pay is also reviewed on promotion.

Remuneration report (continued)

Base pay and benefits (continued)

Staff have access to discounted staff benefits including roadside assistance and other motoring products, general insurance, travel, and financial services. Directors' have access to discounted benefits including general insurance, travel and financial services.

Performance incentives

If RACWA Holdings Pty Ltd ('RACWA') and the entities it controlled ('RACWA Group') achieves pre determined targets set by the remuneration and nomination committee, an incentive pool is available to executives during the annual review. Targets are based on the RACWA Group achieving balanced scorecard objectives. The targets consist of a number of key performance indicators ("KPIs") covering both financial and non financial, and RACWA Group and individual measures of performance. Typically included are measures such as achievement of financial targets, member measures, people measures, leadership team contributions and progress of key strategies. This ensures variable reward is only available when value has been created and when financial and non financial returns are consistent with the business plan. The incentive benefit is leveraged for performance above the threshold to provide an incentive for executives to perform beyond this threshold.

Each executive has a target depending on the accountabilities of the role and impact on the Group or business unit performance. The remuneration and nomination committee is responsible for assessing whether the key performance indicators are met.

On an annual basis, after consideration of performance against KPIs, the remuneration and nomination committee determines the amount, if any, of the performance incentive to be paid to each executive. This process usually occurs within three months after the reporting date.

Performance incentive for 2018 and 2019 financial years
For the 2018 financial year, 100% of the performance incentive was achieved, as previously accrued in that period vested to executives and was paid in the 2019 financial year. There were no forfeitures.

The remuneration and nomination committee considered the performance incentive payments for the 2019 financial year in August 2019. Amounts have been accrued on the basis that the RACWA Group's KPI targets for the year ended 30 June 2019 have been met and it is expected that executives will meet their respective individual KPIs. Any adjustments between the actual amounts to be paid in September 2019 as determined by the remuneration committee and the amounts accrued will be adjusted in the 2020 financial year. The minimum amount of the performance incentive assuming that no executives meet their respective KPIs for the 2019 financial year is nil.

Superannuation

Superannuation is paid in accordance with the Superannuation Guarantee Levy to the superannuation guarantee maximum contribution base.

As executives, only B D Darling is employed directly by the company. As such his remuneration and nomination is structured as follows:

Alignment to shareholder interests
• Financial performance of the company and achievement of its growth targets;
• Leadership of the employees of the company, including attracting and retaining key staff;
• Achievements of a range of non financial value drivers which help contribute to the success of the Company; and
• Contribution to the RACWA Group.

Alignment to program participant's interest
• Rewards capability and experience;
• Reflects competitive reward for contributing to growth in shareholder wealth;
• Provides clear structure for earnings rewards; and
• Provides recognition for contribution.

Remuneration report (continued)

RAC Finance's performance is reflected in the profit after tax and dividends paid over time. The performance for the past five years, including the current period is shown below.

	Profit after tax	Dividends paid
2015	$1,894,432	$2,145,000
2016	$1,840,653	$1,895,000
2017	$2,010,375	$1,400,000
2018	$2,507,169	-
2019	$4,354,732	-

The company has increased its exposure to property lending, which has increased the company's profit. Due to growth in both the consumer and property loans and advances no dividend was paid in the current year.

With regards to R Slocombe, T Agnew, A J Pickworth and G B Mather, a component of their fixed salary and performance incentives has been allocated to the company. These individuals participate in the RACWA Group incentive program which is the same as described above. However, the incentive is linked to the performance of the RACWA Group (which includes the company), rather than the performance of the company individually.

Executives are permanent employees of the RACWA Group and are therefore subject to the employment terms and conditions of the RACWA Group.

The RACWA Group has a remuneration and nomination committee which provides advice on remuneration and incentive policy and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors.

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

(i) Directors

Alden Halse	Chairman
Terry Agnew	Executive Director (retired 1 November 2018)
Dennis Banks	
Helen Cook	
Andrew Crane	
Dalton Gooding	
Tim Shanahan	
Robert Slocombe	Executive Director (appointed 1 November 2018)
Jim Walker	

(ii) Executives

Brian Darling	General Manager Finance
Geoff Mather	Company Secretary, Group Chief Financial Officer
Antony Pickworth	Executive General Manager Travel, Finance & Brand

All of the above persons were also key management personnel during the year ended 30 June 2018 unless otherwise stated.

2019	Short-term employee benefits			Long-term benefits	Post-employment benefits		
Name	Salary and fees	Performance incentive	Non-monetary benefits	Long service leave	Super-annuation	Performance related	Total
	$	$	$	$	$	%	$
Directors							
Alden Halse	13,784	-	-	-	1,309	-	15,093
Dennis Banks	7,351	-	-	-	698	-	8,049
Helen Cook	7,351	-	-	-	698	-	8,049
Andrew Crane	7,351	-	-	-	698	-	8,049
Dalton Gooding	7,351	-	-	-	698	-	8,049
Timothy Shanahan	7,351	-	-	-	698	-	8,049
Jim Walker	7,351	-	-	-	698	-	8,049

Remuneration report (continued)

2019	Short-term employee benefits			Long-term benefits	Post-employment benefits		
Name	Salary and fees $	Performance incentive $	Non-monetary benefits $	Long service leave $	Super-annuation $	Performance related %	Total $
Executives							
Terry Agnew*	24,012	10,462	55	9,136	399	23.7	44,064
Robert Slocombe*	18,559	4,994	8	-	389	-	23,950
Antony Pickworth	150,506	50,934	1,645	-	6,862	24.3	209,947
Geoff Mather	40,087	13,133	573	-	2,073	23.5	55,866
Brian Darling	235,954	76,458	2,712	6,529	18,490	22.5	340,143
Totals for each component	**527,008**	**155,981**	**4,993**	**15,665**	**33,710**		**737,357**

2018	Short-term employee benefits			Long-term benefits	Post-employment benefits		
Name	Salary and fees $	Performance incentive $	Non-monetary benefits $	Long service leave $	Super-annuation $	Performance related %	Total $
Directors							
Alden Halse	13,447	-	-	-	1,278	-	14,725
Dennis Banks	7,172	-	-	-	681	-	7,853
Helen Cook	7,172	-	-	-	681	-	7,853
Andrew Crane	1,693	-	-	-	161	-	1,854
Dalton Gooding	7,172	-	-	-	681	-	7,853
Timothy Shanahan	7,172	-	-	-	681	-	7,853
Jim Walker	7,172	-	-	-	681	-	7,853
Executives							
Terry Agnew*	25,256	10,038	74	-	501	28.0	35,869
Antony Pickworth	146,683	47,354	1,465	-	6,616	23.4	202,118
Geoff Mather	39,068	12,186	455	-	2,005	22.7	53,714
Brian Darling	230,501	49,274	1,518	-	18,044	16.5	299,337
Totals for each component	**492,508**	**118,852**	**3,512**	**-**	**32,010**		**646,882**

* Terry Agnew retired on 1 November 2018 and Robert Slocombe was appointed on 1 November 2018.

End of Remuneration report (audited)

Insurance of officers

The company indemnifies the directors and executive officers for liability. A related body corporate has obtained insurance cover in respect of the above indemnity. The contract prohibits disclosure of the nature of the liabilities and the amount of the premium.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Corporate governance

In recognising the needs for the highest standard of corporate behaviour and accountability, the directors of RAC Finance Limited support and adhere to generally accepted principles of good corporate governance. The company's corporate governance statement is contained in the Corporate Governance section of this annual report.

Staff

The directors wish to record their appreciation of the commitment and dedication of all staff.

Auditor's independence declaration

Ernst & Young Australia, the Company's auditors, have provided a written independence declaration to the directors in relation to their audit of the financial report for the year ended 30 June 2019. The independence declaration can be found on page 53, and forms part of this report.

This report is made in accordance with a resolution of directors.

Alden Halse
Chairman

Perth, W.A.
2 September 2019

Corporate governance statement

The RAC Finance Limited Board of Directors ("Board") is responsible for the entity's corporate governance. The Board guides and monitors the business and affairs of RAC Finance Limited on behalf of the shareholder by whom they are elected and to whom they are accountable.

The Board has established guidelines for the nomination and selection of directors and for its operation, which ensures the Board is well equipped to discharge its responsibilities.

Board composition

Board composition is determined in accordance with the following principles and guidelines:

- The Board should comprise a maximum of ten directors;
- The Board elects the Chairman; and
- The Board should comprise directors with an appropriate range of qualifications and expertise.

Board meetings

The Board generally meets monthly and follows meeting guidelines set down to ensure all directors are made aware of, and have available, all necessary information to participate in an informed discussion of all agenda items.

Board members

The directors in office at the date of this statement are:

Name	Position	Term in office
Alden Halse	Chairman, Director	Director since October 2005 (4 years as Chairman)
Dennis Banks	Director	Director since March 1996
Helen Cook	Director	Director since January 2014
Andrew Crane	Director	Director since April 2018
Dalton Gooding	Director	Director since August 2000
Timothy Shanahan	Director	Director since October 2014
Robert Slocombe	Executive Director, Group Chief Executive Officer	Director since November 2018
Jim Walker	Director	Director since November 2013

Terry Agnew was an Executive Director until his retirement from the Board on 1 November 2018.

Board responsibilities

As the Board acts on behalf of and is accountable to its shareholder, the Board seeks to identify the expectations of the shareholder, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risks and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The Board delegates responsibility for the operation and administration of the entity to the Chief Executive Officer and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure that this is achieved, including the establishment of the committees detailed below and:

- Board approval of a strategic plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk. The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- Implementation of operating plans and budgets by management and Board monitoring of progress against budget - this includes the establishment and monitoring of key performance indicators, both financial and non financial for all significant business processes;

Board responsibilities (continued)

- Establishment of committees to report on operational risks, environmental issues and concerns, and occupational health and safety; and
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the company's expense.

The Board utilises the following committees, established by RACWA Holdings Pty Ltd:

Remuneration and Nomination Committee

The Board has a Remuneration and Nomination Committee, which meets at least annually to:

- Review the remuneration arrangements for the directors, the Chief Executive and the executive team;
- Ensure that the Board continues to operate within the agreed guidelines, including, where necessary, evaluating the skills required by the Board;
- Consider nominations to the Board, if required.

One third of non executive directors retire from office each year.

The Chairman is responsible for communicating Board composition requirements to the shareholder on an annual basis.

The shareholder is responsible for the appointment of directors to the Board.

Shareholder approval is required for any change to director remuneration arrangements.

The Remuneration and Nomination Committee appoints external consultants as and when required, to assist with the review of remuneration arrangements.

All the members of the Remuneration and Nomination Committee are non executive directors. The members of the Remuneration and Nomination Committee during the year were:

Alden Halse	Chairman, Director
Dennis Banks	Director
Dalton Gooding	Director
Jim Walker	Director

Group Audit and Risk Committee

The Group Audit and Risk Committee provides assurance to RAC Finance Limited.

The Board has delegated responsibility for the establishment and maintenance of the framework of internal control and standards for the management of the entity to the Group Audit and Risk Committee.

The Group Audit and Risk Committee meets a minimum of four times a year and operates under a charter approved by the board of RACWA Holdings Pty Ltd. The Board's responsibility is to ensure that an effective risk and internal control framework exists within the entity. This includes internal controls to deal with both effectiveness and efficiency of significant business processes. These significant business processes include the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as benchmarking of operational key performance indicators.

The Group Audit and Risk Committee provides the Board with additional assurance regarding the integrity of financial reporting.

The Group Audit and Risk Committee and the Board meet with the internal and external auditors, in the absence of management, and as required, but at least annually.

The Group Audit and Risk Committee is also responsible for:

- Overseeing and monitoring the internal audit function and action taken by management to address findings;

Group Audit and Risk Committee (continued)

- Managing the engagement of the external auditor, including reviewing the adequacy of the scope and quality of the annual statutory audit; and
- Assisting the Board with regards to oversight of the entity's risk management and compliance frameworks.

All members of the Group Audit and Risk Committee are non executive directors or councillors. The members of the Group Audit and Risk Committee during the year were:

Jacqueline Ronchi	Chairman and Councillor
Dennis Banks	Director
Helen Cook	Director
Anthony Evans	President and Councillor
Alden Halse	Director

The following committees have been established by the Board:

Due Diligence Committee

The Due Diligence Committee is responsible for ensuring that issues associated with the issuing of a prospectus have been properly considered and that the content of the prospectus issued by the company is appropriate for secured note investment fund raising.

The members of the Due Diligence Committee during the year were:

Helen Cook	Chairman, Director
Carl Brucciani	Compliance Manager
Brian Darling	General Manager
Dalton Gooding	Director
Geoff Mather	Company Secretary, Group Chief Financial Officer
Antony Pickworth	Executive General Manager
Wade Scott	Financial Controller

Credit Committee

The Board has established a Credit Committee with the responsibility of ensuring that loans over $5,000,000 received consideration by Board members.

The members of the Credit Committee during the year were:

Terry Agnew	Executive Director, Chief Executive Officer (until November 2018, or in his absence)
Dalton Gooding	Director
Alden Halse	Director
Geoff Mather	Company Secretary, Group Chief Financial Officer
Robert Slocombe	Executive Director, Group Chief Executive Officer (from November 2018)

Monitoring the Board's performance and communication to the shareholder

The Chairman reviews the performance of all directors annually to ensure the Board continues to discharge its responsibilities in an appropriate manner. Directors whose performance is unsatisfactory are asked to retire.

The Board of Directors aims to ensure that the shareholder, on behalf of which they act, is informed of all information necessary to assess the performance of the directors.

Information is communicated to the shareholder through:

- Chairman's monthly review;
- Monthly performance report;
- Other information as required; and
- The annual general meeting and other meetings called to obtain approval for Board action as appropriate.

RAC Finance Limited ABN 77 009 066 862
Annual report - 30 June 2019

Contents

This financial report covers RAC Finance Limited as an individual entity. The financial report is presented in Australian dollars.

RAC Finance Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

RAC Finance Limited
832 Wellington Street
West Perth W.A. 6005

A description of the nature of the company's operations and its principal activities is included in the directors' report on page 1, which is not part of this financial report.

The financial report was authorised for issue in accordance with a resolution of the directors on 2 September 2019. The directors have the power to amend and reissue the financial report.

	Notes	2019 $	2018 $
Revenue			
Interest revenue		**21,413,854**	16,876,606
Interest expense		**(8,022,084)**	(6,573,134)
Net interest income		**13,391,770**	10,303,472
Other income	4	**2,472,771**	2,733,325
Expenses			
Management fees		**(1,424,372)**	(1,233,108)
Depreciation and amortisation expense	5	**(62,988)**	(102,282)
Other operating expenses		**(1,392,872)**	(1,765,358)
Advertising and promotional expenses		**(1,697,110)**	(1,602,674)
Employee benefits expense	5	**(3,830,354)**	(3,584,736)
Credit loss expense		**(524,705)**	(692,843)
Commissions and fees		**(540,547)**	(345,118)
Borrowing costs	5	**(142,262)**	(112,951)
Profit before income tax		**6,249,331**	3,597,727
Income tax expense	6	**(1,894,599)**	(1,090,558)
Profit from continuing operations		**4,354,732**	2,507,169
Profit for the year		**4,354,732**	2,507,169

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

RAC Finance Limited
Statement of comprehensive income
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Profit for the year		**4,354,732**	2,507,169
Total comprehensive income for the year is attributable to:			
Owner of RAC Finance Limited		**4,354,732**	2,507,169
		4,354,732	2,507,169

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

	Notes	**2019** **$**	2018 $
ASSETS			
Cash and cash equivalents	8	**22,157,052**	28,217,947
Trade and other receivables	9	**13,203**	84,643
Loans and advances	13	**300,337,452**	261,309,807
Deferred tax assets	11	**850,453**	799,473
Property, plant and equipment	10	**53,515**	32,136
Intangible assets	12	**107,094**	83,656
Other assets	14	**594,260**	436,382
Total assets		**324,113,029**	290,964,044
LIABILITIES			
Trade and other payables	15	**4,669,909**	4,244,898
Interest bearing loans and borrowings	16	**272,201,272**	253,814,795
Provisions		**415,640**	352,465
Total liabilities		**277,286,821**	258,412,158
Net assets		**46,826,208**	32,551,886
EQUITY			
Contributed equity	17(a)	**20,000,000**	10,000,000
Retained earnings	18(a)	**26,826,208**	22,551,886
Total equity		**46,826,208**	32,551,886

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

	Notes	Contributed equity $	Retained earnings $	Total equity $
Balance at 1 July 2017		5,000,000	20,044,717	25,044,717
Contributions of equity, net of transaction costs and tax	17	5,000,000	-	5,000,000
Profit for the year		-	2,507,169	2,507,169
		5,000,000	2,507,169	7,507,169
Balance at 30 June 2018		**10,000,000**	**22,551,886**	**32,551,886**
Balance at 1 July 2018		10,000,000	22,551,886	32,551,886
Contributions of equity, net of transaction costs and tax	17	10,000,000	-	10,000,000
Profit for the year		-	4,354,732	4,354,732
Adoption of new accounting standard*		-	(80,410)	(80,410)
		10,000,000	4,274,322	14,274,322
Balance at 30 June 2019		**20,000,000**	**26,826,208**	**46,826,208**

** Refer to Note 1(b)(ii)*

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

RAC Finance Limited
Statement of cash flows
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Interest and other operating income from customers		**23,401,065**	19,426,311
Interest received from deposits		**489,280**	289,963
Interest payments		**(7,915,810)**	(5,800,463)
Recoveries on loans previously written off		**182,268**	142,459
Cash payments to employees and suppliers		**(9,020,602)**	(8,513,111)
Customer loans advanced		**(192,844,997)**	(194,197,769)
Customer loan repayments received		**153,239,224**	119,078,194
Proceeds from borrowings		**75,943,378**	96,473,048
Repayment of borrowings		**(57,556,901)**	(17,969,745)
Income taxes paid		**(1,950,639)**	(1,281,001)
Net cash (outflow)/inflow from operating activities	26	**(16,033,734)**	7,647,886
Cash flows from investing activities			
Payments for property, plant and equipment		**(37,469)**	(1,113)
Payments for intangible assets		**(70,335)**	(8,448)
Net cash outflow from investing activities		**(107,804)**	(9,561)
Cash flows from financing activities			
Repayments of loans from related parties		**80,643**	207,273
Capital contribution from parent entity		**10,000,000**	5,000,000
Net cash inflow from financing activities		**10,080,643**	5,207,273
Net (decrease)/increase in cash and cash equivalents		**(6,060,895)**	12,845,598
Cash and cash equivalents at the beginning of the financial period		**28,217,947**	15,372,349
Cash and cash equivalents at end of year	8	**22,157,052**	28,217,947

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

Contents of the notes to the financial statements

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) General information

RAC Finance Limited provides financial services to members of The Royal Automobile Club of W.A. (Incorporated) and the public through a distribution network in Australia. RACWA Holdings Pty Ltd is the immediate parent of RAC Finance Limited.

The Royal Automobile Club of W.A. (Incorporated) is an association incorporated in Australia under the Western Australian Associations Incorporation Act 2015. The Club was formed in 1905 and incorporated on 24 September 1917 and is the ultimate parent of the group.

The registered office of RAC Finance Limited is located at:

832 Wellington Street
West Perth W.A. 6005

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. RAC Finance Limited is a for-profit entity for the purpose of preparing the financial report.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the company

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2018:

- *AASB 15 Revenue from Contracts with Customers.*

The adoption of the above new and amended standards has not had a significant impact on the financial results or position of the company. Disclosures have been changed where required.

- *AASB 9 Financial Instruments (effective from 1 January 2018).*

AASB 9 Financial Instruments replaces *AASB 139 Financial Instruments*: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company has applied AASB 9 retrospectively, with the initial application date of 1 July 2018, the company has not restated comparative information.

The effect of adopting AASB 9 is as follows:

The adoption of the impairment requirements of AASB 9 resulted in an increase in the loss allowance, resulting in a negative impact on equity.

Impact on assets and equity (increase/(decrease)) on initial application:

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(ii) New and amended standards adopted by the company (continued)

	$
Assets	
Loans and advances	(114,872)
Deferred tax assets	34,462
Total assets	(80,410)
Net impact on equity:	
Retained earnings	(80,410)

Set out below is the reconciliation of the ending impairment allowances in accordance with AASB 139 to the opening loss allowances determined in accordance with AASB 9:

	Provision for impairment under AASB 139 as at 30 June 2018 $	Re-measurement $	Expected credit loss under AASB 9 as at 1 July 2018 $
Loans and advances	932,983	114,872	1,047,855

Classification and measurement
There is no significant impact on the company's balance sheet or equity on applying the classification and measurement requirements of AASB 9. Loans and advances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Loans and advances continue to be accounted for at amortised cost. Cash and cash equivalents was previously classified as loans and receivables under AASB 139. Under AASB 9, cash and cash equivalents is classified as financial assets at amortised cost. The classification for all other financial assets and financial liabilities remains largely the same as it was under AASB 139 and no other financial assets and financial liabilities have been designated as fair value through profit or loss. Therefore, reclassification for these instruments is not required.

The impairment provision has been reclassified as an expected credit loss (ECL) upon initial application, however the impairment provision in the comparative information for each of the primary financial statements follows the classification and measurement requirements of AASB 139. Other than the expected credit loss adjustment, no changes in measurement have occurred for financial assets or financial liabilities.

Impairment
AASB 9 requires the company to record expected credit losses on all its loans and advances. The company has applied the standard's simplified approach and has calculated the ECLs based on either a 12 month or lifetime ECL basis. The company has established a provision matrix that is based on the company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The adoption of the ECL requirements of AASB 9 has not had a significant impact on the company's balance sheet or equity.

The company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into any credit enhancements held by the company.

The adoption of the ECL requirements of AASB 9 resulted in increases in impairment allowances of the company's debt financial assets. The increase in allowance resulted in an adjustment to retained earnings.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(ii) New and amended standards adopted by the company (continued)

Other adjustments
In addition to the adjustments described above, on adoption of AASB 9, other items of the primary financial statements such as deferred taxes will be adjusted as necessary.

(iii) Historical cost convention

This financial report has been prepared under the historical cost convention.

(iv) Critical accounting estimates

The preparation of the financial report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial report, are disclosed in note 3.

(c) Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The following specific recognition criteria must also be met before revenue is recognised:

(i) Fees and commission income

Fees and commission income is brought to account on an accruals basis. Non refundable front end fees are recognised as income when the loan is disbursed. If material, front end fees which are risk or yield related are deferred and amortised to interest income over the life of the loan using the effective interest method. Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest over the life of the loan using the effective interest rate method. Fees received for commitments which are not expected to result in a loan are included in fees and commissions and amortised on a straight line basis over the commitment period. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income on an accruals basis.

(ii) Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset. Any yield adjusting fee income is recognised within loans and advances and is earned in the income statement as interest income over the expected term of the loan, using the effective interest method.

Loan origination fees and costs are amortised over the expected life of the loan. The company has adopted a loan pool basis amortisation with an expected life of loan rather than an effective interest rate approach applied individually to each loan.

(d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

1 Summary of significant accounting policies (continued)

(d) Income tax (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of goodwill or of assets and liabilities if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

Tax consolidation legislation

The Royal Automobile Club of W.A. (Incorporated) and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The Royal Automobile Club of W.A. (Incorporated) is the head entity of the tax consolidated company. Members of the company have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial report in respect of this agreement on the basis that the possibility of default is remote.

In addition to its own current and deferred tax amounts, The Royal Automobile Club of W.A. (Incorporated), the ultimate parent entity, also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 6.

Any difference between the amounts assumed and the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(e) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets and operating leases under which the lessor effectively retains substantially all such risks and benefits. Operating lease payments are charged to the income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

1 Summary of significant accounting policies (continued)

(e) Leases (continued)

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance cost. The cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Lease commitments in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(f) Impairment of non financial assets other than goodwill

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Cash and cash equivalents

For balance sheet and the statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(h) Trade and other receivables

Trade receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.

Impairment of trade and other receivables

For trade and other receivables at amortised cost, the company applies the low credit risk simplification. At every reporting date, the company evaluates whether the trade and other receivables are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the company reassesses the internal credit rating of the trade and other receivable. In addition, the company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Related party receivables

Receivables from related parties are recognised and carried at the amortised cost.

(i) Loans and advances

All loans and advances are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the loans and advances.

Loans and advances represent loans made to members of The Royal Automobile Club of W.A. (Incorporated) and to the public.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method.

1 Summary of significant accounting policies (continued)

(i) Loans and advances (continued)

Non accrual loans are loans and advances where the debt has been written down to recoverable value. The Board is of the view that the recovery of the principal only will occur on these loans. Once classified as a non accrual loan, interest payments receivable on the loan are not brought to account as income.

Impairment of loans and advances

The company recognises an allowance for expected credit losses (ECLs) for all loans and advances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). When estimating the ECLs, the company considers three scenarios (a base case, an upside and a downside).

Stage 1 credit losses are assessed over a 12-month basis and consist of those loans with the highest credit rating. Stage 2 credit losses assessed are over a lifetime basis and consists of loans that are over 30 days past due, but under 90 days. Stage 1 and Stage 2 allowances are assessed collectively. Stage 3 credit losses are those loans that are over 90 days past due, with the allowances assessed individually.

The company considers loans and advances in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into any credit enhancements held by the company.

The company uses a provision matrix to calculate ECLs for loans and advances. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, and customer type and rating). The provision matrix is initially based on the company's historical observed default rates. The company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., consumer confidence) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Forward looking information does not have a significant impact on the ECL provision for the company.

Prior year policies on impairment of loans and advances

(i) Specific Provisions

Specific provisions are raised when there is objective evidence that an impairment loss on loans and advances has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and present value of estimated future cash flows using the original effective interest rate.

(ii) Collective provision

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. The appropriate collective provision is raised, based on historical loss data and current available information for assets with similar risk characteristics. From analysis undertaken this benchmark has been consistent with the historical level of bad debts experienced in these portfolios.

1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Subsequent measurement

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

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

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

This category is the most relevant to the company. The company measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The company's financial assets at amortised cost include trade and other receivables.

(ii) Financial assets at fair value through OCI (debt instruments)

The company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets (continued)

Subsequent measurement (continued)

(ii) Financial assets at fair value through OCI (debt instruments) (continued)

For debt instruments at fair value through OCI, interest income and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to income statement. During the year, the company did not hold any financial assets at fair value through OCI (debt instruments).

(iii) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. During the year, the company did not hold any financial assets designated at fair value through OCI (equity instruments).

(iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. During the year, the company did not hold any financial assets at fair value through profit or loss.

Impairment of financial assets

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets (continued)

For debt instruments at fair value through OCI, the applies the low credit risk simplification. At every reporting date, the company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the company reassesses the internal credit rating of the debt instrument. In addition, the company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

It is the company's policy to measure ECLs on debt instruments at fair value through OCI on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(k) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial assets and liabilities is calculated by discounting the expected future cash flows by the current interest rate for assets and liabilities with similar risk profiles.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

(l) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

	2019	**2018**
- Motor Vehicles	5-8 years	5-8 years
- Fixtures and fittings	5-13.3 years	5-13.3 years
- Office machines and equipment	5-7.5 years	5-7.5 years
- Computer equipment	3-4 years	3-4 years
- Computer software	2-5 years	2-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date and where adjusted, shall be accounted for as a change in accounting estimate. Where depreciation rates or method are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)).

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(m) Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (4 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (4-10 years).

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(p) Borrowing costs

Borrowing costs and other expenses associated with the raising of finance but which are not directly attributable to any individual investment note are expensed in the period in which they are incurred.

Interest expense on notes is recognised as it accrues, using the effective interest method.

(q) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1 Summary of significant accounting policies (continued)

(r) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non monetary benefits, and annual leave due to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts due to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Defined contribution obligations

The company participates in a defined contribution fund. Employees can elect to adopt a fund of their choice. All employees who elect the Superannuation fund that the company participates in, are entitled to benefits on retirement, disability or death from this plan. The defined contribution fund receives fixed contributions from company companies and the company's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Incentive plans

The company recognises a liability and an expense for incentives. The company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(s) Contributed equity

Ordinary shares are classified as equity (note 17).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(u) Financial instrument transaction costs

Financial instrument transaction costs are included in the carrying initial amounts of financial assets and financial liabilities carried at amortised cost and are amortised using the effective interest method.

1 Summary of significant accounting policies (continued)

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(w) Recognition and derecognition of financial assets and financial liabilities

Refer to notes 1(i), 1(j), 1(k) and 1(p) for recognition of financial assets and financial liabilities.

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration received that the company could be required to pay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another with the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(x) New accounting standards and interpretations

All accounting standards and amendments that were effective during the year have been adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not yet been applied in the financial statements. The company's assessment of the impact of these new standards and interpretations is set out below.

The company plans to adopt these standards and interpretations from the date on which the standard/interpretation becomes effective.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

(i) AASB Interpretation 23 Uncertainty over Income Tax Treatments, and relevant amending standards (effective from 1 January 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:
• Whether an entity considers uncertain tax treatments separately.
• The assumptions an entity makes about the examination of tax treatments by taxation authorities.
• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
• How an entity considers changes in facts and circumstances.

The amendments are not expected to have a significant impact on the company's financial statements.

(ii) AASB 2018-1 Annual improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019)

The amendments clarify certain requirements in:
• AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation
• AASB 112 Income Taxes - income tax consequences of payments on financial instruments classified as equity
• AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

The amendments are not expected to have a significant impact on the company's financial statements.

(iii) AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The amendments are not expected to have a significant impact on the company financial statements.

(y) Comparative figures

Comparative figures are, where appropriate, reclassified to be comparable with figures presented in the current financial statements.

2 Financial risk management

The company's principal financial instruments, comprise loans and advances, secured notes, short term borrowings, cash and short term deposits. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The company's activities expose it to a variety of financial risks: market risk (price risk including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

The company manages its risk through a comprehensive set of policies, procedures and limits approved by the Board. Management of all instruments is integrated into the company's risk management practices and speculative transactions are not permitted.

2 Financial risk management (continued)

Details of the significant accounting policies and methods adopted, including the recognition criteria, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial report. Certain comparatives within this note have been restated to ensure a consistent approach across the company. The impact is not material.

The company holds the following financial instruments:

	2019 **$**	2018 $
Financial assets		
Cash and cash equivalents	**22,157,052**	28,217,947
Trade and other receivables	**13,203**	84,643
Loans and advances	**300,337,452**	261,309,807
	322,507,707	289,612,397
Financial liabilities		
Trade and other payables	**4,669,909**	4,244,898
Borrowings	**272,201,272**	253,814,795
	276,871,181	258,059,693

(a) Market risk

(i) Fair value interest rate risk

The company's main interest rate risk arises from changes in the shape and direction of interest rates (yield curve risk) as well as mismatches in the repricing term of assets and liabilities. Interest rate risk is monitored by the company under guidelines and limits defined by the Board in relation to acceptable levels of predefined margins between lending and borrowing rates.

The assumption for using -0.5% / +0.5% (2018: -0.5% / +0.5%) for interest rate risk for the purpose of the sensitivity analysis, are based on historical trends over 12 months and what is considered a realistic movement in these financial assets and liabilities within the next 12 months.

The company analyses the interest rate exposure by taking into consideration refinancing and renewal of existing positions. Based on these considerations, the company calculates the impact on profit and loss of a defined interest rate shift. At 30 June 2019, if the interest rates had changed by -0.5% / +0.5% (2018: -0.5% / +0.5%) from the year end rates with all other variables held constant, post tax profit for the year would have been ($317,138)/$317,138 (2018: ($327,690)/$327,690) lower/higher.

(ii) Summarised sensitivity analysis

The following table summarises the sensitivity of the company's financial assets and financial liabilities to variable interest rate risk and price risk holding all other variables constant.

2 Financial risk management (continued)

(a) Market risk (continued)

(ii) Summarised sensitivity analysis (continued)

At 30 June 2019	Carrying amount $	-0.5% Profit $	-0.5% Equity $	+0.5% Profit $	+0.5% Equity $
Financial assets					
Cash and cash equivalents	22,157,052	(78,328)	(78,328)	78,328	78,328
Loans and advances	300,337,452	(238,810)	(238,810)	238,810	238,810
Financial liabilities					
Interest bearing loans and borrowings	272,201,272	-	-	-	-
Total increase/ (decrease)		(317,138)	(317,138)	317,138	317,138

At 30 June 2018	Carrying amount $	-0.5% Profit $	-0.5% Equity $	+0.5% Profit $	+0.5% Equity $
Financial assets					
Cash and cash equivalents	28,217,947	(99,666)	(99,666)	99,666	99,666
Loans and advances	261,309,807	(228,024)	(228,024)	228,024	228,024
Financial liabilities					
Interest bearing loans and borrowings	253,814,795	-	-	-	-
Total increase/ (decrease)		(327,690)	(327,690)	327,690	327,690

Movement in profits are due to higher or lower interest costs from variable rate debt and cash balances.

(b) Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of a customer to meet their obligations to the company on time and in full, as contracted. To address this risk, the company has implemented a robust credit risk management framework which has been approved by the Board. The company's maximum exposure to credit risk at balance sheet date in relation to each class of recognised financial assets, is the carrying amount of these assets as indicated in the Balance Sheet.

All new customers are assessed for credit worthiness when an application for loan/credit is received. The credit quality of a customer is assessed by taking into account their financial position, previous credit history and duration at their current place of employment and residence. Customers that do not satisfy the credit test are denied credit. Larger transactions over a specific threshold are referred to the Board for assessment and approval.

At 30 June 2019, the expected credit loss rates were as follows:

	Stage 1 individual	Stage 2 individual
Consumer	0.27%	0.71%
Property	0.00%	0.00%

2 Financial risk management (continued)

(b) Credit risk (continued)

Stage 3 credit losses are those loans that are over 90 days past due, with the allowances assessed individually.

At 30 June 2018, average historical default rates for Consumer and Property were 0.39% and 0.05% respectively.

Cash and cash equivalents are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution. All cash and cash equivalents balances on the Balance Sheet at 30 June 2019 were with 'AA-' rated financial institutions.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

All assets that are neither past due or impaired are not rated by an external agency and are considered to be of a good rating.

Concentration of credit risk on loans and advances

The company minimises concentration of credit risk in relation to finance receivables by undertaking transactions with a large number of customers. The customers are concentrated in Western Australia.

Concentration of loans and advances

	2019		2018	
	$	**%**	$	%
Loans and advances				
Personal - Consumer	**198,424,718**	**65.9**	166,888,825	63.6
Commercial - Property	**102,777,703**	**34.1**	95,353,966	36.4
	301,202,421	**100.0**	262,242,791	100.0

(c) Liquidity risk

The company's liquidity policy is designed to ensure it has sufficient funds to meet its obligations as they fall due. There are two aspects to this risk. First, the company must ensure it has sufficient funds to meet day to day requirements arising from its normal activities. Second, the company must be able to cope with unforeseen outflows. The volume of liquid assets varies over time in line with market conditions, and is maintained in accordance with Board approved limits.

The company manages the liquidity risk inherent in the maturity analysis of financial liabilities by expecting some of its undrawn loan commitments will not be drawn and by maintaining $10m-$15m in Cash at Bank. The liquidity position is monitored daily and a monthly cash forecast is prepared to determine the level of debt that will be required.

Maturities of financial liabilities

The tables below analyse the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

At 30 June 2019	Less than 3 months $	3 - 12 months $	Between 1 and 5 years $	Total $
On balance sheet				
Investment notes	**55,868,195**	**153,337,590**	**62,995,487**	**272,201,272**
Trade and other payables	**4,475,320**	**-**	**-**	**4,475,320**
Payable to controlling entity under Tax Sharing Agreement	**-**	**194,589**	**-**	**194,589**
Total on balance sheet	**60,343,515**	**153,532,179**	**62,995,487**	**276,871,181**
Off balance sheet				
Interest on investment notes	**1,600,460**	**4,346,709**	**1,932,827**	**7,879,996**
Total off balance sheet	**1,600,460**	**4,346,709**	**1,932,827**	**7,879,996**

At 30 June 2018	Less than 3 months $	3 - 12 months $	Between 1 and 5 years $	Total $
On balance sheet				
Investment notes	60,885,343	161,296,272	31,633,180	253,814,795
Trade and other payables	4,010,786	-	-	4,010,786
Payable to controlling entity under Tax Sharing Agreement	-	234,112	-	234,112
Total on balance sheet	64,896,129	161,530,384	31,633,180	258,059,693
Off balance sheet				
Interest on investment notes	1,875,252	4,990,522	1,019,716	7,885,490
Total off balance sheet	1,875,252	4,990,522	1,019,716	7,885,490

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the company and that are believed to be reasonable under the circumstances.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Estimates are made by the company in respect of the allowance for expected credit losses, as described in notes 1(i) and 13.

4 Other income

	2019 **$**	2018 $
Fees and commissions	**2,290,503**	2,590,866
Bad debts recovered	**182,268**	142,459
	2,472,771	2,733,325

5 Expenses

	2019 **$**	2018 $
Profit before income tax includes the following specific expenses:		
Depreciation		
Motor vehicles	**10,050**	10,051
Office machines and equipment	**4,327**	736
Computer software	**-**	66,325
Fixtures and fittings	**1,713**	442
Total depreciation	**16,090**	77,554
Amortisation		
Intangibles	**46,898**	24,728
Total depreciation and amortisation	**62,988**	102,282
Finance costs		
Borrowing and finance charges paid / payable	**142,262**	112,951
Employee benefits and related expenses		
Wages and salaries	**3,350,081**	3,152,839
Workers' compensation costs	**19,074**	16,591
Defined contribution superannuation expense	**275,508**	250,348
Payroll tax	**185,691**	164,958
Total employee benefits expenses	**3,830,354**	3,584,736

6 Income tax expense

(a) Income tax expense

	2019 **$**	2018 $
Current tax	**2,012,652**	1,322,580
Deferred tax	**(119,250)**	(232,425)
Adjustments for current tax of prior periods	**1,197**	403
	1,894,599	1,090,558

6 Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	**6,249,331**	3,597,727
Tax at the Australian tax rate of 30.0% (2018 - 30.0%)	**1,874,799**	1,079,318
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	**18,603**	10,837
	1,893,402	1,090,155
Adjustments for current tax of prior periods	**1,197**	403
Income tax expense	**1,894,599**	1,090,558

(c) Tax consolidation legislation

The Royal Automobile Club of W.A. (Incorporated) and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Royal Automobile Club of W.A. (Incorporated) is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial report in respect of this agreement on the basis that the possibility of default is remote.

(d) Tax effect accounting by members of the tax consolidation group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their taxable income for the period on a group allocation taxpayer approach for each entity. Deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of *AASB 112: Income Taxes*. Allocations under the tax funding agreement are made at the end of each financial year.

The allocation of taxes under the tax funding arrangement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, The Royal Automobile Club of W.A. (Incorporated).

(e) Tax risk management

The Royal Automobile Club of W.A. Inc. Tax Consolidated Group is committed to ensuring that it maintains the highest standards of corporate tax governance for managing its tax affairs. It has established a Tax risk management framework in order to ensure that it has an effective framework in place that will allow it to manage its tax obligations in line with its low tax risk appetite and the latest Australian Taxation Office guidelines.

(f) Deferred income tax

Refer to note 11 for details of deferred tax assets.

7 Fair values and interest rate risk

(a) Fair values

The fair values and carrying values of financial assets of the company are as follows:

	2019		2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Cash	**22,157,052**	**22,157,052**	28,217,947	28,217,947
Other receivables	**13,203**	**13,203**	84,643	84,643
Loans and advances - Property	**102,777,703**	**103,026,879**	95,353,966	95,474,028
Loans and advances - Consumer	**198,424,718**	**197,413,264**	166,888,825	168,274,656
	323,372,676	**322,610,398**	290,545,381	292,051,274

The fair values of loans and advances are estimated using discounted cash flow analysis, based on current lending rates for similar types of lending arrangements of 7.24% to 7.70% (2018: 6.92% to 7.70%).

For the purposes of fair value disclosure under AASB 13, the loans would be categorised as a level 2 asset where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(b) Interest rate risk

The following table sets out the carrying amount, by maturity or repricing, whichever is earlier, of the financial assets of the company exposed to interest rate risk.

		Fixed interest maturing in:			
2019	Floating interest rate	1 year or less	Over 1 to 5 years	Non interest bearing	Total
	$	$	$	$	$
Cash	22,157,052	-	-	-	22,157,052
Trade and other receivables	-	-	-	13,203	13,203
Loans and advances - Property	-	94,680,259	8,097,444	-	102,777,703
Loans and advances - Consumer	-	47,788,430	150,636,288	-	198,424,718
	22,157,052	142,468,689	158,733,732	13,203	323,372,676

Weighted average effective interest rate

Cash	1.57%
Loans and advances - Property	7.94%
Loans and advances - Consumer	7.02%

7 Fair values and interest rate risk (continued)

(b) Interest rate risk (continued)

2018	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Fixed interest maturing in: Over 1 to 5 years $	Non interest bearing $	Total $
Cash	28,217,947	-	-	-	28,217,947
Trade and other receivables	-	-	-	84,643	84,643
Loans and advances - Property	-	77,594,376	17,759,590	-	95,353,966
Loans and advances - Consumer	-	39,959,376	126,929,449	-	166,888,825
	28,217,947	117,553,752	144,689,039	84,643	290,545,381

Weighted average effective interest rate

Cash	1.98%
Loans and advances - Property	7.81%
Loans and advances - Consumer	7.27%

8 Assets - Cash and cash equivalents

	2019 $	2018 $
Cash at bank and in hand	**22,157,052**	28,217,947
Balance as per cash flow statement	**22,157,052**	28,217,947

(a) Cash and cash equivalents

The carrying amount for cash and cash equivalent approximates fair value. Cash at bank earns interest at floating rates and on daily bank deposit rates.

9 Assets - Trade and other receivables

	2019 $	2018 $
Trade receivables	**13,203**	84,643

(a) Interest rate risk

Information concerning the effective interest rate relating to receivables is set out in note 7.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the company. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

(c) Credit risk

Refer to note 2 for more information on the risk management policy of the company.

10 Assets - Property, plant and equipment

	Computer equipment $	Fixtures and fittings $	Motor vehicles $	Computer software $	Office machines & equipment $	Total $
At 1 July 2017						
Cost	21,012	9,621	50,251	411,915	13,030	505,829
Accumulated depreciation	(20,085)	(7,259)	(13,307)	(345,590)	(11,011)	(397,252)
Net book amount	927	2,362	36,944	66,325	2,019	108,577
Year ended 30 June 2018						
Opening net book amount	927	2,362	36,944	66,325	2,019	108,577
Additions	-	-	-	-	1,113	1,113
Depreciation charge	(278)	(442)	(10,051)	(66,325)	(458)	(77,554)
Closing net book amount	649	1,920	26,893	-	2,674	32,136
At 30 June 2018						
Cost	21,012	9,621	50,251	411,915	14,143	506,942
Accumulated depreciation	(20,363)	(7,701)	(23,358)	(411,915)	(11,469)	(474,806)
Net book amount	649	1,920	26,893	-	2,674	32,136

10 Assets - Property, plant and equipment (continued)

	Computer equipment $	Fixtures and fittings $	Motor vehicles $	Computer software $	Office machines & equipment $	Total $
Year ended 30 June 2019						
Opening net book amount	649	1,920	26,893	-	2,674	32,136
Additions	19,031	16,950	-	-	1,488	37,469
Depreciation charge	(3,716)	(1,713)	(10,050)	-	(611)	(16,090)
Closing net book amount	15,964	17,157	16,843	-	3,551	53,515
At 30 June 2019						
Cost	40,043	26,571	50,251	411,915	15,631	544,411
Accumulated depreciation	(24,079)	(9,414)	(33,408)	(411,915)	(12,080)	(490,896)
Net book amount	15,964	17,157	16,843	-	3,551	53,515

(a) Assets pledged as security

Refer to note 16(b) for information on assets pledged as security by the company.

11 Assets - Deferred tax assets

	2019 $	2018 $
The balance comprises temporary differences attributable to:		
Prepaid tax deductible expenditure	**19,355**	21,109
Employee benefits	**196,228**	177,135
Provision for doubtful debts	**259,497**	279,895
Taxed future revenue for accounting purposes	**368,400**	322,900
Property, plant and equipment	**6,973**	-
Employee benefits - FBT	**-**	(1,566)
Net deferred tax assets	**850,453**	799,473
Movements:		
Charged/credited:		
Opening balance	**799,473**	597,360
- charged to income statement	**119,250**	232,425
- charged to equity on adoption of AASB 9	**34,462**	-
Adjustments to opening balances	**(102,732)**	(30,312)
Closing balance at 30 June	**850,453**	799,473
Deferred tax asset	**853,315**	801,039
Deferred tax liability	**(2,862)**	(1,566)
Net deferred tax assets	**850,453**	799,473

12 Assets - Intangible assets

	Intangibles $
Year ended 30 June 2018	
Opening net book amount	99,936
Additions - acquisition	8,448
Amortisation charge and impairment loss	(24,728)
Closing net book amount	83,656
At 30 June 2018	
Cost	253,968
Accumulated amortisation and impairment	(170,312)
Net book amount	83,656
Year ended 30 June 2019	
Opening net book amount	83,656
Additions - acquisition	70,336
Amortisation charge and impairment loss	(46,898)
Closing net book amount	107,094
At 30 June 2019	
Cost	324,304
Accumulated amortisation and impairment	(217,210)
Net book amount	107,094

13 Assets - Loans and Advances

	2019 $	2018 $
Term Loans	**301,935,760**	262,954,093
Unearned Income	**(733,319)**	(711,303)
Specific provision for impairment	-	(236,221)
Collective provision for impairment	-	(696,762)
Allowance for expected credit losses	**(864,989)**	-
Net loans and advances	**300,337,452**	261,309,807

13 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2019 **$**	2018 $
Not longer than 3 months	**47,763,997**	31,640,565
Longer than 3 and not longer than 12 months	**93,839,723**	85,676,965
Longer than 1 and not longer than 5 years	**158,733,732**	144,689,039
Collective provision for impairment	**-**	(696,762)
	300,337,452	261,309,807

(b) Impairment of loans and advances

As at 30 June 2019, receivables with a nominal value of $617,391 (2018: $504,151) were impaired. It is expected that a portion of the nominal value will not be recovered and the amount of the provision was $309,227 (2018: $236,221).

	2019 **$**	2018 $
The ageing of these impaired loans and advances is as follows:		
1 to 3 months	**34,990**	-
3 to 6 months	**256,389**	-
Over 6 months	**17,848**	236,221
	309,227	236,221

At 30 June 2019, receivables of $6,328,807 (2018: $2,689,879) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2019 **$**	2018 $
Up to 3 months	**6,289,686**	2,687,956
3 to 6 months	**39,121**	1,923
Over 6 months	**-**	-
	6,328,807	2,689,879

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2019 if their terms were not negotiated was $970,176 (2018: $296,302). Collateral held as security for receivables past due or impaired were in the form of motor vehicles, motorcycles, boats, caravans and land. The estimated fair value of the security of these receivables at 30 June 2019 was $6,282,997 (2018: $2,627,647). In addition, assets that had been repossessed and were in possession at 30 June 2019 were estimated to have a fair value of $43,944 (2018: $137,073).

13 Assets - Loans and Advances (continued)

	2019 $	2018 $
*Stage 1 and 2 allowance for expected credit losses **		
Opening balance after effect of adoption of AASB 9	**811,634**	-
Credit loss expense	**(255,872)**	-
	555,762	-
*Stage 3 allowance for expected credit losses **		
Opening balance	**236,221**	-
Credit loss expense	**597,711**	-
Non-accrual loans written off	**(524,705)**	-
	309,227	-
Specific provision for impairment		
Opening balance	-	181,963
Doubtful debts	-	747,101
Non-accrual loans written off	-	(692,843)
	-	236,221
Collective provision for impairment		
Opening balance	-	447,385
Doubtful debts	-	249,377
	-	696,762
Credit loss expense		
Stage 3 individually assessed*	**597,711**	-
Stage 1 and 2 collectively assessed*	**(255,872)**	-
Specific provisions for impairment	-	747,101
Doubtful debts	-	249,377
	341,839	996,478

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described as follows:

	2019 $	2018 $
Non-accrual loans		
With allowances	**617,391**	-
Stage 3 allowance for expected credit losses*	**(309,227)**	-
With provisions	-	504,151
Specific provisions for impairment	-	(236,221)
	308,164	267,930
Interest foregone on non-accrual loans	**733,339**	711,303

* Refer to note 1(b)(ii) and 1(i) for further details.

"Non-accrual loans" are loans and advances where the debt has been written down to recoverable value. The Board is of the view that recovery of the principal only will occur on these loans. Once classified as a non-accrual loan, interest accruing on the loan is not brought to account as income.

14 Assets - Other assets

	2019 $	2018 $
Prepayments	**37,340**	55,895
Deferred commission	**556,920**	380,487
	594,260	436,382

15 Liabilities - Trade and other payables

	2019 $	2018 $
Trade payables	**254,776**	124,922
Accrued Interest	**2,896,147**	2,789,873
Amounts due to related parties	**645,873**	565,231
Accrued expenses	**678,524**	530,760
Payable to controlling entity under Tax Sharing Agreement	**194,589**	234,112
	4,669,909	4,244,898

The carrying amount of trade and other payables approximates its fair value and is non interest bearing. Repayment is expected to occur within 30 days, except for amounts due to related parties which is at call, and payable to the controlling entity under the tax funding agreement which is 12 months.

Accrued interest

Payment of interest is in accordance with each type of borrowing. All interest is remitted within 12 months from accrual.

Further information relating to loans from related parties is set out in note 24.

Accrued expenses

These amounts represent liabilities for salary and wages and commissions prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of all the other amounts approximate to their fair value and are non interest bearing.

16 Liabilities - Interest bearing loans and borrowings

	2019 $	2018 $
Secured		
Investment notes	**272,201,272**	253,814,795
Total secured borrowings	**272,201,272**	253,814,795

16 Liabilities - Interest bearing loans and borrowings (continued)

(a) Maturity analysis

Refer to note 16(e).

(b) Secured liabilities and assets pledged as security

The investment notes issued by the company are secured by way of a first ranking floating charge over the total assets of RAC Finance Limited carried at $324,113,029 (2018: $290,964,044). All investment notes that are secured by the first ranking floating charge rank equally with all other issued investment notes stock. The terms and conditions of the pledge are specified in the Trust Deed ("Deed") which is an agreement between RAC Finance Limited and The Trust Company (Australia) Limited. The provisions of the Deed are binding on RAC Finance Limited for the protection of investors. The Deed limits the amount RAC Finance Limited may borrow by requiring the sum of Total Secured Liabilities and Issued Stock to not exceed the lesser of 15 times Shareholder Funds and 90% of Total Tangible Assets. The Deed further limits the amount RAC Finance Limited may borrow by requiring Total External Liabilities to not exceed the lesser of 15 times Shareholders Funds and 95% of Total Tangible Assets.

(c) Fair value

The carrying amounts and fair values of borrowings at the end of the reporting period are:

	At 30 June 2019		At 30 June 2018	
	Carrying amount **$**	**Fair value** **$**	Carrying amount $	Fair value $
Investment notes	**272,201,272**	**273,685,059**	253,814,795	254,042,473

None of the classes are readily traded on organised markets in standardised form.

The fair values of investment notes are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.40% to 2.80%.

For the purposes of fair value disclosure under AASB 13, the investment notes would be categorised as a level 2 liability where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(d) Investment notes

Investment notes held at balance date have an effective interest rate of 2.90% (2018: 3.11%) paid monthly, quarterly or annually in arrears with average maturity of April 2020. Investment notes have terms ranging from 1 to 4 years. Interest is paid in accordance with the investors instructions which may be quarterly or annually or compounded annually.

(e) Interest rate risk exposures

The following table sets out the carrying amount, by maturity or repricing, whichever is earlier, of the financial liabilities of the company exposed to interest rate risk.

16 Liabilities - Interest bearing loans and borrowings (continued)

(e) Interest rate risk exposures (continued)

2019	Fixed interest rate 1 year or less $	Over 1 to 4 years $	Total $
Investment notes	209,205,785	62,995,487	272,201,272
Weighted average interest rate			2.90%

2018	Fixed interest rate 1 year or less $	Over 1 to 4 years $	Total $
Investment notes	222,181,615	31,633,180	253,814,795
Weighted average interest rate			3.11%

17 Contributed equity

(a) Share capital

	2019 Shares	2018 Shares	**2019 $**	2018 $
Ordinary shares				
Issued and paid up capital	**40,000,000**	20,000,000	**20,000,000**	10,000,000

(b) Ordinary shares

All shares issued are ordinary shares and there are no rights, preferences or restrictions attached to the share including restrictions on the distribution of dividends and the repayment of capital.

During the year, the issued share capital was increased by $10,000,000 (2018: $5,000,000) by the issue of 20,000,000 (2018: 10,000,000) ordinary shares.

(c) Capital risk management

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the company may pay dividends to shareholders, return capital to shareholders or issue new shares.

Consistently with others in the industry, the company monitors capital on the basis of an equity ratio. This ratio is calculated as total equity divided by total debt plus total equity. Total debt is calculated as 'total liabilities' as shown in the balance sheet) and total equity is calculated as 'total equity' as shown in the balance sheet.

17 Contributed equity (continued)

(c) Capital risk management (continued)

The Australian Securities and Investments Commission (ASIC) Regulatory Guide 69 sets out eight benchmarks for issuers to address in a prospectus on an "if not, why not" basis. The benchmarks are not mandatory and are to assist investors to understand the risks and rewards being offered prior to making an investment decision. ASIC Benchmark 1 Equity Capital ratio states that a minimum equity ratio of 20% should be held for issuers with more than 10% of its lending activity directly or indirectly for property development and 8% in all other cases. While the company currently has an equity ratio of 14.4% (2018: 11.2%) which doesn't meet the requirement of 20%, it considers that its level of equity is appropriate in light of its history of low credit losses, credit rating and the business parameters described in the prospectus.

	2019	2018
	$	$
Total debt	**277,286,821**	258,412,158
Total equity	**46,826,208**	32,551,886
Net debt	**324,113,029**	290,964,044
Equity ratio	**14.4%**	11.2%

The increase in the equity ratio during 2019 resulted primarily from an increase in profitability and equity during the year, following an increase in issued share capital.

18 Reserves and retained earnings

(a) Retained earnings

Movements in retained earnings were as follows:

	Notes	**2019**	2018
		$	$
Balance 1 July		**22,551,886**	20,044,717
Net profit for the year		**4,354,732**	2,507,169
Adoption of AASB 9*	1(b)(ii)	**(80,410)**	-
Balance 30 June		**26,826,208**	22,551,886

* Refer to note 1(b)(ii) for details of the change in accounting policy and the impact recognised on 1 July 2018.

19 Dividends

(a) Ordinary shares

No dividends were paid in the year (2018: nil).

20 Key management personnel disclosures

(a) Key management personnel

The following persons had authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, during the financial year:

Alden Halse	Chairman
Terry Agnew	Executive Director, Chief Executive Officer (resigned 1 November 2018)
Dennis Banks	Director
Helen Cook	Director
Andrew Crane	Director (appointed 17 April 2018)
Brian Darling	General Manager Finance
Dalton Gooding	Director
Geoff Mather	Company Secretary, Chief Financial Officer
Antony Pickworth	Executive General Manager Travel, Finance & Brand
Timothy Shanahan	Director
Robert Slocombe	Executive Director, Chief Executive Officer (appointed 1 November 2018)
Jim Walker	Director

All the above persons were also key management personnel during the year ended 30 June 2018 unless otherwise stated.

(b) Key management personnel compensation

	2019 **$**	2018 $
Cash salary and fees	**527,008**	492,508
Performance incentive	**155,981**	118,852
Non monetary benefits	**4,993**	3,512
Long Service Leave	**15,665**	-
Superannuation	**33,710**	32,010
	737,357	646,882

RAC Finance Limited has disclosed the details of the key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 in the Remuneration Report section of the Directors' report. These disclosures have been audited.

(c) Other transactions with key management personnel

During the year no transactions with key management personnel were recorded.

21 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

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	2019 $	2018 $
Audit services		
Audit and review of financial statements	**140,775**	126,600
Other assurance services	**19,000**	18,700
Total auditors' remuneration	**159,775**	145,300

It is the company's policy to employ Ernst & Young Australia on assignments additional to their statutory audit duties where Ernst & Young Australia's expertise and experience with the company are important. These assignments are principally tax advice and other assurance services, or where Ernst & Young Australia is awarded assignments on a competitive basis. It is the company's policy to seek competitive tenders for all major consulting projects.

22 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 30 June 2019 (2018: nil).

23 Commitments

(a) Credit related commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitments represents the maximum amount that could be advanced.

	2019 $	2018 $
Undrawn facilities by RAC Finance customers	**51,215,229**	54,713,214

24 Related party transactions

(a) Parent entities

The parent entity is RACWA Holdings Pty Ltd. The ultimate parent entity is The Royal Automobile Club of WA (Incorporated) which at 30 June 2019 owns 100% (2018: 100%) of the issued ordinary shares of RACWA Holdings Pty Ltd.

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2019 **$**	2018 $
Amount recognised in revenue		
Motoring Club Finance Limited management fee	**139,428**	199,190
Finance staff loans discount	**24,175**	20,675
	163,603	219,865
Amount recognised in expense		
Group services management fee	**1,424,372**	1,233,108
Rent	**353,642**	355,188
Staff insurance discount	**18,101**	19,159
Roadside assistance benefit	**7,670**	6,440
Motor vehicle insurance expense	**2,350**	681
	1,806,135	1,614,576
Other transactions		
Capital contribution from parent entity RACWA Holdings Pty Ltd	**10,000,000**	5,000,000

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2019 **$**	2018 $
Current payables (purchases of goods)		
RACWA Holdings Pty Ltd	**645,873**	565,231
Current payables (tax funding agreement)		
Wholly-owned tax consolidated entities	**194,589**	234,112

24 Related party transactions (continued)

(d) Loans from parent entity

	2019 $	2018 $
Loans from The Royal Automobile Club of WA (Incorporated) (ultimate Australian parent entity)		
Beginning of the year	**(234,312)**	(222,441)
Loans advanced	**(1,910,916)**	(234,112)
Loans repayments made	**1,950,639**	222,241
End of year	**(194,589)**	(234,312)

(e) Terms and conditions

The terms and conditions of the tax funding arrangement are set out in note 6(c).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans from the parent entity. No interest is charged on the loans.

Outstanding balances are unsecured and are repayable in cash.

25 Events occurring after the reporting period

On 2 September 2019, a dividend of $500,000 was declared from retained earnings. The dividend has not been provided for in the 30 June 2019 financial statements.

There has been no other matter or circumstance that has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company, the results of those operations or the state of affairs of the company or economic entity in subsequent financial years.

26 Reconciliation of profit after income tax to net cash (outflow)/inflow from operating activities

	2019 $	2018 $
Profit for the year	**4,354,732**	2,507,169
Depreciation and amortisation	**62,988**	102,282
Allowance for expected credit losses	**(182,866)**	303,635
Credit loss expense	**524,705**	692,843
Change in operating assets and liabilities:		
Increase/(decrease) in employee entitlements	**63,175**	(8,983)
Decrease/(increase) in other assets	**63,222**	(51,809)
Increase in accrued interest payable	**106,274**	772,671
Decrease in trade and other payables	**277,616**	136,793
(Decrease)/increase in amount payable to head entity under Tax Funding Agreement	**(39,522)**	11,671
Increase in loans and advances	**(39,634,018)**	(75,119,575)
Increase in borrowings	**18,386,478**	78,503,303
Increase in deferred tax assets	**(16,518)**	(202,114)
Net cash inflow from operating activities	**(16,033,734)**	7,647,886

In accordance with a resolution of the directors of RAC Finance Limited, I state that:

In the directors' opinion:

(a) the financial report and notes of the company are in accordance with the Corporations Act 2001, including:
  (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;*
  (ii) giving a true and fair view of the entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

(b) the financial report and associated notes are also in accordance with International Financial Reporting Standards as described in Note 1 to the financial report.

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

On behalf of the Board

Alden Halse
Chairman

Perth, W.A.
2 September 2019

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Auditor's Independence Declaration to the Directors of RAC Finance Limited

As lead auditor for the audit of the financial report of RAC Finance Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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Ernst & Young

F Drummond
Partner
2 September 2019

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Independent Auditor's Report to the Members of RAC Finance Limited

Opinion

We have audited the financial report of RAC Finance Limited (the Company), which comprises the balance sheet as at 30 June 2019, the income statement, 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.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

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

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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.

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

The directors are responsible for the other information. The other information comprises the Directors' report and the Corporate governance statement 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.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company'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 Company 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 Company'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 Company'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 Company 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.

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

F Drummond
Partner
Perth
2 September 2019