Annual Financial Report

RAC Finance Limited

For the year ended 30 June 2016

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 2016

Contents

Directors' report

Your Directors present their report on the company for the year ended 30 June 2016.

Directors

A Halse	Chairman
T Agnew	Executive Director, Chief Executive Officer
D Banks	
D Gooding	
J Walker	
H Cook	
T Shanahan	

Principal activities

During the period the principal activities 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 30 (2015: 30) employees as at 30 June 2016.

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, particularly for the consumer loan portfolio. Support for the company's investment notes remained strong with the high customer retention rates, however high borrowing costs lead to a fall in gross lending margins across all products.

The profit from ordinary activities after income tax amounted to $1,840,653 (2015: $1,894,432).

Loans settled during the year increased to $125,865,328 (2015: $109,839,369).

Revenue and fee income totalled $15,919,113 (2015: $16,351,868).

Average loans and advances for the year were $167,333,185 (2015: $159,823,408).

Dividends

Dividends paid to RACWA Holdings Pty Ltd during the financial year were as follows:

	2016 **$**	2015 $
Unfranked dividend	**1,895,000**	2,145,000

Unfranked dividend of $1,000,000 from retained earnings for the year ended 30 June 2016 paid on 29 March 2016.

Unfranked dividend of $895,000 from retained earnings for the year ended 30 June 2015 paid on 14 October 2015.

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 5 September 2016, a dividend of $400,000 was declared from retained earnings. The dividend has not been provided for in the 30 June 2016 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 2015 and is due for review in October 2016. 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.

Remuneration report (continued)

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.

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 2015 and 2016 financial years
For the 2015 financial year, 100% of the performance incentive was achieved, as previously accrued in that period vested to executives and was paid in the 2016 financial year. There were no forfeitures.

The remuneration and nomination committee considered the performance incentive payments for the 2016 financial year in August 2016. Amounts have been accrued on the basis that the RACWA Group's KPI targets for the year ended 30 June 2016 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 2016 as determined by the remuneration committee and the amounts accrued will be adjusted in the 2017 financial year. The minimum amount of the performance incentive assuming that no executives meet their respective KPIs for the 2016 financial year is nil.

Remuneration report (continued)

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.

RAC Finance's performance is reflected in the profit after tax over time. The performance for the past five years, including the current period is shown below.
• 2012 - $2,445,960
• 2013 - $2,140,174
• 2014 - $2,289,342
• 2015 - $1,894,432
• 2016 - $1,840,653

Following a review of its strategy the company has reduced its loans and advances and reduced its exposure to property lending. This has reduced the company's profit over time. In the context of this strategy the financial performance of the company exceeded budget for the 2016 financial year.

With regards to T 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

A Halse	Chairman
T Agnew	Executive Director
D Banks	
D Gooding	
J Walker	
H Cook	
T Shanahan	

Remuneration report (continued)

(ii) Executives

B D Darling	General Manager Finance
A J Pickworth	Executive General Manager Travel, Finance & Brand
G B Mather	Company Secretary, Chief Financial Officer

All of the above persons were also key management personnel during the year ended 30 June 2015 unless otherwise stated.

2016	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							
A Halse	13,002	-	-	-	1,235	-	14,237
D Banks	6,934	-	-	-	659	-	7,593
T Shanahan**	6,934	-	-	-	659	-	7,593
D Gooding	6,959	-	-	-	659	-	7,618
J Walker	6,934	-	-	-	659	-	7,593
H Cook	6,934	-	-	-	659	-	7,593
Executives							
T T Agnew	22,879	6,341	56	-	483	21.3	29,759
A J Pickworth	140,115	30,294	1,449	-	6,372	17.0	178,230
G B Mather	37,319	7,600	442	-	2,117	16.0	47,478
B D Darling	193,739	38,773	2,265	30,137	17,377	13.7	282,291
Totals for each component	**441,749**	**83,008**	**4,212**	**30,137**	**30,879**		**589,985**

2015	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							
A Halse	10,828	-	-	-	1,029	-	11,857
D Banks	8,717	-	-	-	828	-	9,545
T Shanahan**	4,624	-	-	-	439	-	5,063
C O'Sullivan*	2,193	-	-	-	208	-	2,401
D Gooding	6,798	-	-	-	646	-	7,444
J Walker	6,798	-	-	-	646	-	7,444
H Cook	6,798	-	-	-	646	-	7,444
Executives							
T T Agnew	21,780	7,946	56	-	470	26.3	30,252
A J Pickworth	140,488	40,957	1,257	-	6,386	21.7	189,088
G B Mather	36,322	10,566	419	-	2,060	21.4	49,367
B D Darling	208,650	58,603	2,623	-	15,966	20.5	285,842
Totals for each component	**453,996**	**118,072**	**4,355**	**-**	**29,324**		**605,747**

* C O'Sullivan until 27 October 2014
** T Shanahan from 27 October 2014

End of Remuneration report (audited)

Insurance of officers

The Company indemnifies the directors, councillors 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.

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 2016. The independence declaration can be found on page 55.

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

A Halse
Director

Perth, W.A.
5 September 2016

Corporate governance statement

The RAC Finance Limited Board of Directors ("Board") is responsible for the consolidated 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 seven 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
A Halse	Chairman, Director	10 years
D Gooding	Director	15 years
D Banks	Director	20 years
J Walker	Director	3 years
H Cook	Director	3 years
T Shanahan	Director	1 year
T Agnew	Executive Director, Chief Executive Officer	17 years

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 consolidated 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;
- Establishment of committees to report on operational risks, environmental issues and concerns, and occupational health and safety; and

Board responsibilities (continued)

- 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:

A Halse	Chairman, Director
D Banks	Director
D Gooding	Director
J Walker	Director

Group Audit and Risk Committee

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

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;
- 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.

Group Audit and Risk Committee (continued)

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:

J Ronchi	Chairman and Councillor
D Banks	Director
A Halse	Director
H Cook	Director
E Bowen	Councillor

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 debenture fund raising.

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

H Cook	Chairman, Director
D Gooding	Director
A Pickworth	Executive General Manager
G Mather	Company Secretary, Chief Financial Officer
B Darling	General Manager
A Saunders	Financial Controller until 27 November 2015
W Scott	Financial Controller from 18 January 2016
C Brucciani	Compliance Manager

Credit Committee

The Board has established a Credit Committee with the responsibility of ensuring that loans over $3,500,000 received consideration by Board members.

The members of the Credit Committee during the year were:

D Gooding	Director
A Halse	Director
T Agnew	Executive Director, Chief Executive Officer, or in his absence
G Mather	Company Secretary, Chief Financial Officer

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;
- Group 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
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Contents

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

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 5 September 2016. The directors have the power to amend and reissue the financial report.

RAC Finance Limited
Income statement
For the year ended 30 June 2016

	Notes	2016 $	2015 $
Revenue			
Interest revenue		**13,920,488**	14,555,185
Interest expense		**(5,000,783)**	(6,119,933)
Net interest income		**8,919,705**	8,435,252
Other income	4	**1,998,625**	1,796,683
Expenses			
Management fees		**(1,291,039)**	(1,339,523)
Depreciation and amortisation expense	5	**(120,429)**	(122,893)
Other operating expenses		**(1,509,169)**	(1,103,994)
Advertising and promotional expenses		**(1,322,948)**	(995,472)
Employee benefits expense	5	**(3,155,462)**	(3,150,627)
Bad debts expense		**(614,500)**	(518,193)
Commissions and fees		**(188,995)**	(206,103)
Borrowing costs	5	**(78,760)**	(80,475)
Profit before income tax		**2,637,028**	2,714,655
Income tax expense	6	**(796,375)**	(820,223)
Profit from continuing operations		**1,840,653**	1,894,432
Profit for the year		**1,840,653**	1,894,432

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 2016

	Notes	**2016** $	2015 $
Profit for the year		**1,840,653**	1,894,432
Total comprehensive income for the year is attributable to:			
Owner of RAC Finance Limited		**1,840,653**	1,894,432
		1,840,653	1,894,432

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

RAC Finance Limited
Balance sheet
As at 30 June 2016

	Notes	2016 $	2015 $
ASSETS			
Cash and cash equivalents	8	**10,789,223**	11,957,649
Trade and other receivables	9	**303,280**	214,415
Loans and advances	13	**178,655,637**	153,134,410
Deferred tax assets	11	**586,963**	611,770
Property, plant and equipment	10	**193,329**	289,648
Intangible assets	12	**15,164**	21,183
Prepayments	14	**32,980**	57,037
Total assets		**190,576,576**	166,286,112
LIABILITIES			
Trade and other payables	15	**3,023,895**	2,582,641
Interest bearing loans and borrowings	16	**162,742,829**	138,704,789
Provisions	17	**375,510**	509,993
Total liabilities		**166,142,234**	141,797,423
Net assets		**24,434,342**	24,488,689
EQUITY			
Contributed equity	18	**5,000,000**	5,000,000
Retained earnings	19(a)	**19,434,342**	19,488,689
Total equity		**24,434,342**	24,488,689

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

	Notes	Contributed equity $	Retained earnings $	Total equity $
Balance at 1 July 2014		5,000,000	19,739,257	24,739,257
Profit for the year		-	1,894,432	1,894,432
Dividends provided for or paid	20	-	(2,145,000)	(2,145,000)
		-	(250,568)	(250,568)
Balance at 30 June 2015		**5,000,000**	**19,488,689**	**24,488,689**
Balance at 1 July 2015		5,000,000	19,488,689	24,488,689
Profit for the year		-	1,840,653	1,840,653
Dividends provided for or paid	20	-	(1,895,000)	(1,895,000)
		-	(54,347)	(54,347)
Balance at 30 June 2016		**5,000,000**	**19,434,342**	**24,434,342**

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

	Notes	2016 $	2015 $
Cash flows from operating activities			
Interest and other operating income from customers		**15,513,342**	15,796,712
Interest received from deposits		**139,604**	564,704
Interest payments		**(4,720,052)**	(6,026,815)
Recoveries on loans previously written off		**140,344**	213,444
Cash payments to employees and suppliers		**(7,276,506)**	(5,446,254)
Customer loans advanced		**(125,865,328)**	(109,839,369)
Customer loan repayments received		**99,478,940**	122,803,969
Proceeds from borrowings		**34,878,435**	14,027,044
Repayment of borrowings		**(10,840,396)**	(30,094,251)
Income taxes paid		**(623,636)**	(1,395,619)
Net cash (outflow)/inflow from operating activities	27	**824,747**	603,565
Cash flows from investing activities			
Payments for property, plant and equipment		**(29,422)**	-
Proceeds from sale of property, plant and equipment		**11,332**	-
Net cash outflow from investing activities		**(18,090)**	-
Cash flows from financing activities			
(Repayments of) / receipts from borrowings		**(80,083)**	98,449
Dividends paid to parent entity	20	**(1,895,000)**	(2,145,000)
Net cash outflow from financing activities		**(1,975,083)**	(2,046,551)
Net decrease in cash and cash equivalents		**(1,168,426)**	(1,442,986)
Cash and cash equivalents at the beginning of the financial period		**11,957,649**	13,400,635
Cash and cash equivalents at end of year	8	**10,789,223**	11,957,649

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 Limted.

The Royal Automobile Club of W.A (Incorporated) is an association incorporated in Australia under the Western Australian Associations Incorporations Act 1987 (WA), as at 30 June 2016, and as at the date of this report, the 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 accounting policies adopted are consistent with those of the prior year, except as follows.

In the current year, the company has adopted the following new standards and amendments to standards issued by the AASB that are relevant to its operations and effective for the current annual reporting period:

- AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

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.

(iii) Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available for sale financial assets, financial assets at fair value through profit or loss and derivative instruments which are carried at fair value.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(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 is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, and duties and taxes paid. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. 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.

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.

1 Summary of significant accounting policies (continued)

(d) Income tax (continued)

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.

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.

1 Summary of significant accounting policies (continued)

(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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The financial difficulties of the debtor or default payments of debts more than 30 days overdue are considered objective evidence of impairment. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in the income statement.

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.

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.

1 Summary of significant accounting policies (continued)

(i) Loans and advances (continued)

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.

(j) Investments and other financial assets

Classification
The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of selling the receivable.

(ii) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. During the year, the company held investments in this category.

(iii) Available-for-sale financial assets

Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. They are included in assets in the balance sheet.

Dividend income from available for sale financial assets is recognised in the income statement as part of revenue from continuing operations when the right to receive payments is established.

Purchases and sales of investments are recognised on trade date, being the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement with other income or expenses in the period in which they arise.

1 Summary of significant accounting policies (continued)

(j) Investments and other financial assets (continued)

(iii) Available-for-sale financial assets (continued)

Changes in the fair value of other monetary and non monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

During the year, the company did not hold any available-for-sale financial assets.

The company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(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:

	2016	**2015**
- Motor Vehicles	5-8 years	5-8 years
- Fixtures and fittings	13.3 years	13.3 years
- Office machines and equipment	5-7.5 years	5-7.5 years
- Computer equipment	4 years	4 years
- Computer software	4 years	4 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.

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

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)).

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 18).

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) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 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)

(w) New accounting standards and interpretations (continued)

(i) AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.

Classification and measurement

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.

The main changes are described below:

Financial assets

a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Financial liabilities

Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.

Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:
The change attributable to changes in credit risk are presented in other comprehensive income (OCI).
The remaining change is presented in profit or loss.

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.

1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

(i) AASB 9 Financial Instruments (effective from 1 January 2018) (continued)

Impairment

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting

Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 - Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

The company is currently in the process of assessing the impact of the new standard.

(ii) AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) (effective from 1 January 2016)

AASB 116 *Property Plant and Equipment* and AASB 138 *Intangible Assets* both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

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

1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

(iii) AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue-Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

(a) Step 1: Identify the contract(s) with a customer
(b) Step 2: Identify the performance obligations in the contract
(c) Step 3: Determine the transaction price
(d) Step 4: Allocate the transaction price to the performance obligations in the contract
(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.

AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.

The company is currently in the process of assessing the impact of the new standard.

(iv) AASB 1057 Application of Australian Accounting Standards (effective from 1 January 2016)

This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.

The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.

The new standard is not expected to have a significant impact on the company's financial statements.

1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

(v) AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle (effective from 1 January 2016)

The subjects of the principal amendments to the Standards are set out below:

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*:
• Changes in methods of disposal - where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27-29 to account for this change.

AASB 7 *Financial Instruments: Disclosures*:
• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E-42H of AASB 7.

• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure-Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.

AASB 119 *Employee Benefits*:
• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

AASB 134 *Interim Financial Reporting*:
• Disclosure of information 'elsewhere in the interim financial report' -amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

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

(vi) AASB 2015-2 Amendments to Australian Accounting Standards & Disclosure Initiative: Amendments to AASB 101 (effective from 1 January 2016)

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

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

1 Summary of significant accounting policies (continued)

(w) New accounting standards and interpretations (continued)

(vii) AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] (effective 1 January 2017)

This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

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

(viii) AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 (effective 1 January 2017)

This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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

Refer to notes 1(i), 1(j), 1(k) and 1(p).

(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.

(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.

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:

	2016 **$**	2015 $
Financial assets		
Cash and cash equivalents	**10,789,223**	11,957,649
Trade and other receivables	**303,280**	214,415
Loans and advances	**178,655,637**	153,134,410
	189,748,140	165,306,474
Financial liabilities		
Trade and other payables	**3,023,895**	2,582,641
Borrowings	**162,742,829**	138,704,789
	165,766,724	141,287,430

(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% (2015: -0.5% / +1.0%) 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 2016, if the interest rates had changed by -0.5% / +0.5% (2015: -0.5% / +1.0%) from the year end rates with all other variables held constant, post tax profit for the year would have been ($186,376)/$186,376 (2015: ($137,109)/$274,218) lower/higher.

2 Financial risk management (continued)

(a) Market risk (continued)

(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.

		-0.5%		+0.5%	
At 30 June 2016	Carrying amount $	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	10,789,223	(38,023)	(38,023)	38,023	38,023
Loans and advances	178,655,637	(148,353)	(148,353)	148,353	148,353
Financial liabilities					
Interest bearing loans and borrowings	162,742,829	-	-	-	-
Total increase/ (decrease)		(186,376)	(186,376)	186,376	186,376

		-0.5%		+1%	
At 30 June 2015	Carrying amount $	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	11,957,649	(42,364)	(42,364)	84,729	84,729
Loans and advances	153,134,410	(94,745)	(94,745)	189,489	189,489
Financial liabilities					
Interest bearing loans and borrowings	138,704,789	-	-	-	-
Total increase/ (decrease)		(137,109)	(137,109)	274,218	274,218

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 2016 average historical default rates for Consumer and Real estate were 0.33% (2015: 0.33%) and 0.06% (2015: 0.07%) 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 2016 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.

2 Financial risk management (continued)

(b) Credit risk (continued)

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

	2016		2015	
	$	**%**	$	%
Loans and advances				
Personal - Consumer	**112,158,118**	**62.6**	101,416,471	66.0
Commercial - Property	**67,171,375**	**37.4**	52,258,626	34.0
	179,329,493	**100.0**	153,675,097	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 2016	Less than 3 months $	3 - 12 months $	Between 1 and 5 years $	Total $
On balance sheet				
Investment notes	**40,261,717**	**91,447,138**	**31,033,974**	**162,742,829**
Trade and other payables	**2,764,369**	**-**	**-**	**2,764,369**
Payable to controlling entity under Tax Sharing Agreement	**-**	**259,526**	**-**	**259,526**
Total on balance sheet	**43,026,086**	**91,706,664**	**31,033,974**	**165,766,724**
Off balance sheet				
Interest on investment notes	**1,372,292**	**3,044,628**	**1,099,988**	**5,516,908**
Total off balance sheet	**1,372,292**	**3,044,628**	**1,099,988**	**5,516,908**

At 30 June 2015				
On balance sheet				
Investment notes	30,798,858	70,189,897	37,716,034	138,704,789
Trade and other payables	2,471,047	-	-	2,471,047
Payable to controlling entity under Tax Sharing Agreement	-	111,594	-	111,594
Total on balance sheet	33,269,905	70,301,491	37,716,034	141,287,430
Off balance sheet				
Interest on investment notes	1,182,807	2,365,277	1,487,185	5,035,269
Total off balance sheet	1,182,807	2,365,277	1,487,185	5,035,269

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. With the exception of estimates made by the company in respect of specific and collective provisions for impairment as described in notes 1(j) and 13, the company has not made any estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Other income

	2016	2015
	$	$
Fees and commissions	**1,858,281**	1,583,239
Bad debts recovered	**140,344**	213,444
	1,998,625	1,796,683

5 Expenses

	2016	2015
	$	$
Profit before income tax includes the following specific expenses:		
Depreciation		
Motor vehicles	**11,215**	10,873
Office machines and equipment	**25**	660
Computer software	**102,822**	102,822
Fixtures and fittings	**348**	348
Total depreciation	**114,410**	114,703
Amortisation		
Intangibles	**6,019**	8,190
Total depreciation and amortisation	**120,429**	122,893
Finance costs		
Borrowing and finance charges paid / payable	**78,760**	80,475
Employee benefits and related expenses		
Wages and salaries	**2,741,263**	2,752,762
Workers' compensation costs	**16,389**	16,432
Defined contribution superannuation expense	**233,979**	228,104
Payroll tax	**163,831**	153,329
Total employee benefits expenses	**3,155,462**	3,150,627

6 Income tax expense

(a) Income tax expense

	2016	2015
	$	$
Current tax	**770,255**	803,208
Deferred tax	**25,275**	16,385
Adjustments for current tax of prior periods	**845**	630
	796,375	820,223

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	**2,637,028**	2,714,655
Tax at the Australian tax rate of 30.0% (2013 - 30.0%)	**791,108**	814,397
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	**4,422**	5,196
	795,530	819,593
Adjustments for current tax of prior periods	**845**	630
Income tax expense	**796,375**	820,223

(c) Tax consolidation legislation

The Royal Automobile Club of WA (Incorporated) and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. The Royal Automobile Club of WA (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 WA (Incorporated).

(e) 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:

	2016		2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Cash	**10,789,223**	**10,789,223**	11,957,649	11,957,649
Other receivables	**303,280**	**303,280**	214,415	214,415
Loans and advances - Real estate	**67,086,375**	**67,222,779**	52,198,626	52,316,365
Loans and advances - Consumer	**111,976,038**	**112,421,673**	101,300,242	102,797,327
	190,154,916	**190,736,955**	165,670,932	167,285,756

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 8.16%.

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:			
2016	Floating interest rate	1 year or less	Over 1 to 5 years	Non interest bearing	Total
	$	$	$	$	$
Cash	10,789,223	-	-	-	10,789,223
Trade and other receivables	-	-	-	303,280	303,280
Loans and advances - Real estate	-	63,633,645	3,452,730	-	67,086,375
Loans and advances - Consumer	-	26,938,238	85,037,800	-	111,976,038
	10,789,223	90,571,883	88,490,530	303,280	190,154,916

Weighted average effective interest rate

Cash	1.50%
Loans and advances - Real estate	8.16%
Loans and advances - Consumer	8.16%

7 Fair values and interest rate risk (continued)

(b) Interest rate risk (continued)

2015	Floating interest rate	Fixed interest maturing in: 1 year or less	Over 1 to 5 years	Non interest bearing	Total
	$	$	$	$	$
Cash	11,957,649	-	-	-	11,957,649
Trade and other receivables	-	-	-	214,415	214,415
Loans and advances - Real estate	-	48,152,321	4,046,305	-	52,198,626
Loans and advances - Consumer	-	24,405,430	76,894,812	-	101,300,242
	11,957,649	72,557,751	80,941,117	214,415	165,670,932

Weighted average effective interest rate

Cash	2.80%
Loans and advances - Real estate	8.18%
Loans and advances - Consumer	8.68%

8 Assets - Cash and cash equivalents

	2016 $	2015 $
Cash at bank and in hand	**10,789,223**	11,957,649
Balance as per cash flow statement	**10,789,223**	11,957,649

(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

	2016 $	2015 $
Trade receivables	**303,280**	214,415

(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 $	Low value pool $	Computer software $	Office machines & equipment $	Total $
At 1 July 2014							
Cost or fair value	19,899	8,363	54,364	16,558	411,915	10,800	521,899
Accumulated depreciation	(19,899)	(6,161)	(27,665)	(16,558)	(37,125)	(10,140)	(117,548)
Net book amount	-	2,202	26,699	-	374,790	660	404,351
Year ended 30 June 2015							
Opening net book amount	-	2,202	26,699	-	374,790	660	404,351
Depreciation charge	-	(348)	(10,873)	-	(102,822)	(660)	(114,702)
Closing net book amount	-	1,854	15,826	-	271,968		289,649
At 30 June 2015							
Cost or fair value	19,899	8,363	54,364	16,558	411,915	10,800	521,899
Accumulated depreciation	(19,899)	(6,509)	(38,538)	(16,558)	(139,947)	(10,800)	(232,251)
Net book amount	-	1,854	15,826	-	271,968	-	289,648

10 Assets - Property, plant and equipment (continued)

	Computer equipment $	Fixtures and fittings $	Motor vehicles $	Computer software $	Office machines & equipment $	Total $
Year ended 30 June 2016						
Opening net book amount	-	1,854	15,826	271,968	-	289,648
Revaluations	-	-	1,779	-	-	1,779
Additions	-	-	24,649	-	1,117	25,766
Depreciation charge	-	(347)	(11,215)	(102,821)	(25)	(114,408)
Disposals	-	-	(9,456)	-	-	(9,456)
Closing net book amount	-	1,507	21,583	169,147	1,092	193,329
At 30 June 2016						
Cost	19,899	8,363	53,774	411,915	11,917	505,868
Accumulated depreciation	(19,899)	(6,856)	(32,191)	(242,768)	(10,825)	(312,539)
Net book amount	-	1,507	21,583	169,147	1,092	193,329

(a) Assets pledged as security

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

11 Assets - Deferred tax assets

	2016 $	2015 $
The balance comprises temporary differences attributable to:		
Prepaid tax deductible expenditure	**19,392**	17,652
Employee benefits	**177,407**	196,074
Provision for doubtful debts	**202,187**	162,214
Taxed future revenue for accounting purposes	**191,113**	238,325
Employee benefits - FBT	**(2,767)**	(2,383)
Property, plant and equipment	**(369)**	(112)
Net deferred tax assets	**586,963**	611,770
Movements:		
Charged/credited:		
Opening balance	**611,770**	735,401
- charged to income statement	**(25,275)**	(16,385)
Adjustments to opening balances	**468**	(107,246)
Closing balance at 30 June	**586,963**	611,770
Deferred tax asset	**595,724**	627,137
Deferred tax liability	**(8,761)**	(15,367)
Net deferred tax assets	**586,963**	611,770

12 Assets - Intangible assets

	Intangibles
	$
Year ended 30 June 2015	
Opening net book amount	30,163
Amortisation charge and impairment loss	(8,980)
Closing net book amount	21,183
At 30 June 2015	
Cost	156,435
Accumulated amortisation and impairment	(135,252)
Net book amount	21,183
Year ended 30 June 2016	
Opening net book amount	21,183
Amortisation charge and impairment loss	(6,019)
Closing net book amount	15,164
At 30 June 2016	
Cost	156,435
Accumulated amortisation and impairment	(141,271)
Net book amount	15,164

13 Assets - Loans and Advances

	2016	2015
	$	$
Term Loans	**179,920,291**	154,200,873
Specific provision for impairment	**(267,180)**	(176,228)
Unearned Income	**(590,697)**	(525,751)
Collective provision for impairment	**(406,777)**	(364,484)
Net loans and advances	**178,655,637**	153,134,410

13 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2016 $	2015 $
Not longer than 3 months	**20,697,727**	21,136,451
Longer than 3 and not longer than 12 months	**69,874,157**	51,421,326
Longer than 1 and not longer than 5 years	**88,490,530**	80,941,117
Collective provision for impairment	**(406,777)**	(364,484)
	178,655,637	153,134,410

(b) Impairment of loans and advances

As at 30 June 2016, receivables with a nominal value of $1,405,908 (2015: $1,303,843) were impaired. It is expected that a portion of the nominal value will not be recovered and the amount of the provision was $267,180 (2015: $176,228).

	2016 $	2015 $
The ageing of these impaired loans and advances is as follows:		
1 to 3 months	**83,230**	83,340
3 to 6 months	**80,950**	32,888
Over 6 months	**103,000**	60,000
	267,180	176,228

At 30 June 2016, receivables of $961,445 (2015: $891,255) 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:

	2016 $	2015 $
Up to 3 months	**960,939**	862,493
3 to 6 months	**506**	28,762
Over 6 months	**-**	-
	961,445	891,255

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2016 if their terms were not negotiated was $230,373 (2015: $231,645). 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 2016 was $2,031,038 (2015: $1,958,515). In addition, assets that had been repossessed and were in possession at 30 June 2016 were estimated to have a fair value of $27,000 (2015: $47,000).

13 Assets - Loans and Advances (continued)

	2016 $	2015 $
Specific provision for impairment		
Opening balance	**176,228**	266,010
Doubtful debts	**705,452**	428,411
Non-accrual loans written off	**(614,500)**	(518,193)
	267,180	176,228
Collective provision for impairment		
Opening balance	**364,484**	494,021
Doubtful debts	**42,293**	(129,537)
	406,777	364,484
Bad and doubtful debts expense		
Specific provisions for impairment	**705,452**	428,411
Doubtful debts	**42,293**	(129,537)
	747,745	298,874

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

	2016 $	2015 $
Non-accrual loans		
With provisions	**1,405,908**	1,303,843
Specific provisions for impairment	**(267,180)**	(176,228)
	1,138,728	1,127,615
Interest foregone on non-accrual loans	**590,697**	525,751

"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 - Prepayments

	2016 $	2015 $
Prepayments	**32,980**	57,037

15 Liabilities - Trade and other payables

	2016 $	2015 $
Trade payables	**4,211**	1,574
Accrued Interest	**1,997,054**	1,716,324
Amounts due to related parties	**385,362**	465,445
Net goods and services tax (GST) payable / (receivable)	**1,977**	(1,280)
Accrued expenses	**375,765**	288,984
Payable to controlling entity under Tax Sharing Agreement	**259,526**	111,594
	3,023,895	2,582,641

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 25.

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

	2016 $	2015 $
Secured		
Investment notes	**162,742,829**	138,704,789
Total secured borrowings	**162,742,829**	138,704,789

(a) Maturity analysis

Refer to note 16(e).

16 Liabilities - Interest bearing loans and borrowings (continued)

(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 $190,576,576 (2015: $166,286,112). 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 2016		At 30 June 2015	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
Investment notes	**162,742,829**	**163,084,660**	138,704,789	139,688,877

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 3.22% to 3.56%.

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 3.39% (2015: 3.67%) paid quarterly or annually in arrears with average maturity of April 2017. 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.

	Fixed interest rate		
2016	1 year or less $	Over 1 to 4 years $	Total $
Investment notes	131,708,855	31,033,974	162,742,829
Weighted average interest rate			3.39%

16 Liabilities - Interest bearing loans and borrowings (continued)

(e) Interest rate risk exposures (continued)

2015	Fixed interest rate 1 year or less $	Over 1 to 4 years $	Total $
Investment notes	100,988,755	37,716,034	138,704,789
Weighted average interest rate			3.67%

17 Liabilities - Provisions

	2016 **$**	2015 $
Employee benefits	**375,510**	509,993

18 Contributed equity

(a) Share capital

	2016 **Shares**	2015 Shares	**2016** **$**	2015 $
Ordinary shares				
Issued and paid up capital	**10,000,000**	10,000,000	**5,000,000**	5,000,000

(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.

(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.

18 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 12.8% (2015: 14.8%) 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.

	2016 $	2015 $
Total debt	**166,142,234**	141,797,423
Total equity	**24,434,342**	24,488,689
Net debt	**190,576,576**	166,286,112
Equity ratio	**12.8%**	14.8%

The decrease in the equity ratio during 2016 resulted primarily from an increase in borrowings during the year.

19 Reserves and retained earnings

(a) Retained earnings

Movements in retained earnings were as follows:

	2016 $	2015 $
Balance 1 July	**19,488,689**	19,739,257
Net profit for the year	**1,840,653**	1,894,432
Dividends	**(1,895,000)**	(2,145,000)
Balance 30 June	**19,434,342**	19,488,689

20 Dividends

(a) Ordinary shares

	2016 $	2015 $
Dividend for the year ended 30 June paid to RACWA Holdings Pty Ltd		
Unfranked dividend	**1,895,000**	2,145,000

Unfranked dividend of $1,000,000 from retained earnings for the year ended 30 June 2016 paid on 29 March 2016.

Unfranked dividend of $895,000 from retained earnings for the year ended 30 June 2015 paid on 14 October 2015.

20 Dividends (continued)

(a) Ordinary shares (continued)

The franking account has been transferred to The Royal Automobile Club of W.A. (Incorporated) as part of the tax consolidation regime.

21 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:

A Halse	Chairman
T Agnew	Executive Director
D Banks	Director
T Shanahan	Director
D Gooding	Director
J Walker	Director
H Cook	Director
B D Darling	General Manager Finance
A J Pickworth	Executive General Manager Travel, Finance & Brand
G B Mather	Company Secretary, Chief Financial Officer

All the above persons were also key management personnel during the year ended 30 June 2015 unless otherwise stated.

(b) Key management personnel compensation

	2016 **$**	2015 $
Cash salary and fees	**441,749**	453,996
Performance incentive	**83,008**	118,072
Non monetary benefits	**4,212**	4,355
Long Service Leave	**30,137**	-
Superannuation	**30,879**	29,324
	589,985	605,747

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.

22 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:

(a) Ernst & Young Australia

	2016 **$**	2015 $
Audit services		
Audit and review of financial statements	**152,425**	151,275
Total auditors' remuneration	**152,425**	151,275

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 due diligence reporting on acquisitions, 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.

23 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 30 June 2016 (2015: nil).

24 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.

	2016 **$**	2015 $
Undrawn facilities by RAC Finance customers	**42,410,261**	40,795,032

25 Related party transactions

(a) Parent entities

The parent entity is RACWA Holdings Pty Ltd. The ultimate parent entity is The Royal Automobile Club of W.A. (Incorporated) which at 30 June 2016 owns 100% (2015: 100%) of the issued ordinary shares of RACWA Holdings Pty Ltd.

25 Related party transactions (continued)

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2016 $	2015 $
Amount recognised in revenue		
Motoring Club Finance Limited management fee	**311,610**	121,656
Finance staff loans discount	**34,510**	42,798
	346,120	164,454
Amount recognised in expense		
Group services management fee	**1,291,039**	1,339,523
Rent	**414,564**	391,416
Staff insurance discount	**24,167**	24,543
Roadside assistance benefit	**6,283**	5,708
Motor vehicle insurance expense	**1,739**	1,571
	1,737,792	1,762,761
Other transactions		
Dividends paid to parent entity RACWA Holdings Pty Ltd	**1,895,000**	2,145,000

During the financial year a property loan was transferred from RAC Finance to RACWA Holdings for a consideration equivalent to its carrying value.

RAC Finance's parent company RACWA Holdings Pty Ltd holds a 17.12% shareholding in Watermark Enterprises Pty Ltd. Watermark Enterprises Pty Ltd has a $3m loan facility with RAC Finance. D Gooding, a Director of RACWA Holdings Pty Ltd and RAC Finance, is a Director and shareholder of Watermark Enterprises Pty Ltd.

(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:

	2016 $	2015 $
Current payables (purchases of goods)		
RACWA Holdings Pty Ltd	**385,362**	465,445
Current payables (tax funding agreement)		
Wholly-owned tax consolidated entities	**(259,526)**	(111,594)

25 Related party transactions (continued)

(d) Loans from parent entity

	2016 $	2015 $
Loans from The Royal Automobile Club of W.A. (Incorporated) (ultimate Australian parent entity)		
Beginning of the year	**(111,594)**	(810,621)
Loans advanced	**(259,526)**	(111,594)
Loans repayments made	**111,594**	810,621
End of year	**(259,526)**	(111,594)

(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.

26 Events occurring after the reporting period

There has been no 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.

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

	2016 $	2015 $
Profit for the year	**1,840,653**	1,894,432
Depreciation and amortisation	**120,428**	122,892
Doubtful debts receivable	**133,245**	(219,319)
Bad debts written off	**614,500**	518,193
Change in operating assets and liabilities:		
(Decrease) / increase in employee entitlements	**(134,483)**	21,683
(Increase) / decrease in other assets	**(219,048)**	268,725
Increase in accrued interest payable	**280,732**	93,118
Increase / (decrease) in trade and other payables	**92,672**	(185,844)
Decrease in amount payable to head entity under Tax Funding Agreement	**147,932**	(699,027)
(Increase) / decrease in customer loans advanced	**(26,114,731)**	14,732,288
Increase / (decrease) in borrowings	**24,038,040**	(16,067,207)
Decrease in deferred tax assets	**24,807**	123,631
Net cash (outflow)/inflow from operating activities	**824,747**	603,565

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 consolidated entity's financial position as at 30 June 2016 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

A Halse
Director

Perth, W.A.
5 September 2016

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

As lead auditor for the audit of RAC Finance Limited for the financial year ended 30 June 2016, 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.

Ernst & Young

Ernst & Young

F Drummond
Partner
5 September 2016

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Independent auditor's report to the members of RAC Finance Limited

Report on the financial report

We have audited the accompanying financial report of RAC Finance Limited, which comprises the balance sheet as at 30 June 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of RAC Finance Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 2 to 5 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of RAC Finance Limited for the year period ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
5 September 2016