

Interim financial report

**RAC Finance Limited - for the half year ended
31 December 2019**

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



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2019

Contents

Directors' report	Page 1
Interim financial statements	2
Directors' declaration	14

Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2019.

Directors

The following persons held office as Directors of RAC Finance Limited during the financial period and up to the date of this report unless otherwise stated:

Alden Halse (Chairman)
Dennis Banks
Andrew Crane
Helen Cook
Dalton Gooding
Tim Shanahan
Jim Walker
Robert Slocombe (Executive Director, Chief Executive Officer)

Review of operations

The entity's profit after tax for the half year ended 31 December 2019 was \$2,677,056 (2018: \$2,082,202).

Market and economic conditions for the car loan and property development finance markets were favourable, following a strong year of receivables in the previous twelve month period. Coupled with the company's focus to maintain liquidity and a conservative credit risk profile, expected credit losses were significantly lower. Investment into 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 has continued. Investor support for the company's investment notes also remained strong with high customer retention rates.

Auditor's independence declaration

Ernst & Young Australia, our auditors, have provided a written independence declaration to the Directors in relation to their review of the financial report for the half year ended 31 December 2019. The independence declaration can be found on page 15, and forms part of this report.

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



Alden Halse
Chairman

Perth, W.A.

18 February 2020

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Interim report - 31 December 2019

Contents

	Page
Interim financial statements	
Income statement	3
Statement of comprehensive income	4
Balance sheet	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8
Directors' declaration	14
Auditor's independence declaration	15

RAC Finance Limited
Income statement
For the half-year 31 December 2019

		31 December 2019	31 December 2018
	Notes	\$	\$
Revenue			
Interest revenue		11,476,010	10,646,916
Interest expense		(3,848,924)	(4,051,313)
Net interest income		7,627,086	6,595,603
Other income	2	1,316,402	1,198,847
Expenses			
Management fees		(800,882)	(726,091)
Depreciation and amortisation expense	3	(32,896)	(32,874)
Other operating expenses		(757,137)	(678,160)
Advertising and promotional expenses		(760,387)	(853,335)
Employee benefits expense	3	(2,145,394)	(1,914,033)
Credit loss expense	3	(211,587)	(269,336)
Commissions and fees		(303,953)	(262,105)
Borrowing costs	3	(93,597)	(81,432)
Profit before income tax		3,837,655	2,977,084
Income tax expense		(1,160,599)	(894,882)
Profit for the period		2,677,056	2,082,202
Profit is attributable to:			
Owner of RAC Finance Limited		2,677,056	2,082,202

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

RAC Finance Limited
Statement of comprehensive income
For the half-year 31 December 2019

	31 December 2019	31 December 2018
	\$	\$
Profit for the period	<u>2,677,056</u>	<u>2,082,202</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>2,677,056</u>	<u>2,082,202</u>
	<u>2,677,056</u>	<u>2,082,202</u>

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

RAC Finance Limited
Balance sheet
As at 31 December 2019

	Notes	31 December 2019 \$	30 June 2019 \$
ASSETS			
Cash and cash equivalents	5	13,448,108	22,157,052
Trade and other receivables		33,844	13,203
Loans and advances	6	324,952,403	300,337,452
Deferred tax assets		642,835	850,453
Property, plant and equipment		75,333	53,515
Intangible assets		85,938	107,094
Other assets		599,985	594,260
Total assets		339,838,446	324,113,029
LIABILITIES			
Trade and other payables	7	4,542,112	4,669,909
Interest bearing loans and borrowings	8	285,834,729	272,201,272
Provisions		458,341	415,640
Total liabilities		290,835,182	277,286,821
Net assets		49,003,264	46,826,208
EQUITY			
Contributed equity	9	20,000,000	20,000,000
Retained earnings	10	29,003,264	26,826,208
Total equity		49,003,264	46,826,208

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

RAC Finance Limited
Statement of changes in equity
For the half-year 31 December 2019

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
Balance at 1 July 2018		10,000,000	22,551,886	32,551,886
Contributions of equity, net of transaction costs and tax		10,000,000	-	10,000,000
Profit for the year		-	2,082,202	2,082,202
Adoption of new accounting standard		-	(80,410)	(80,410)
		<u>10,000,000</u>	<u>2,001,792</u>	<u>12,001,792</u>
Balance at 31 December 2018		20,000,000	24,553,678	44,553,678
Balance at 1 July 2019		20,000,000	26,826,208	46,826,208
Profit for the year		-	2,677,056	2,677,056
Dividends provided for or paid	11	-	(500,000)	(500,000)
		<u>-</u>	<u>2,177,056</u>	<u>2,177,056</u>
Balance at 31 December 2019		20,000,000	29,003,264	49,003,264

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

RAC Finance Limited
Statement of cash flows
For the half-year 31 December 2019

	31 December 2019	31 December 2018
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	12,475,398	11,491,898
Interest received from deposits	151,038	241,598
Interest payments	(3,698,051)	(3,491,699)
Recoveries on loans previously written off	88,280	102,921
Cash payments to employees and suppliers	(5,184,638)	(4,174,348)
Customer loans advanced	(110,413,750)	(96,004,035)
Customer loan repayments received	85,715,247	69,345,957
Proceeds from borrowings	40,616,111	42,975,296
Repayment of borrowings	(26,982,654)	(24,116,058)
Income taxes paid	(1,110,379)	(1,004,422)
Net cash (outflow)/inflow from operating activities	14 <u>(8,343,398)</u>	<u>(4,632,892)</u>
Cash flows from investing activities		
Payments for intangible assets	-	(70,335)
Payments for property, plant and equipment	(33,557)	(30,281)
Net cash outflow from investing activities	<u>(33,557)</u>	<u>(100,616)</u>
Cash flows from financing activities		
Repayments of loans from related parties	168,011	114,133
Capital contribution from parent entity	-	10,000,000
Dividends paid to parent entity	11 <u>(500,000)</u>	<u>-</u>
Net cash inflow from financing activities	<u>(331,989)</u>	<u>10,114,133</u>
Net increase in cash and cash equivalents	(8,708,944)	5,380,625
Cash and cash equivalents at the beginning of the financial period	<u>22,157,052</u>	<u>28,217,947</u>
Cash and cash equivalents at end of period	<u>13,448,108</u>	<u>33,598,572</u>

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The interim financial statements are for the entity RAC Finance Limited.

(a) General Information

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

The registered office of RAC Finance Limited is located at:

832 Wellington Street
 West Perth W.A. 6005

(b) Basis of preparation (interim report)

This condensed interim report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*.

This condensed interim report does not include all the notes of the type normally included in an annual financial report, and should be read in conjunction with the 30 June annual report.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(c) Changes in Accounting Policy

Since 1 July 2019, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2019. The adoption of these Standards and Interpretations had no material effect on the financial position or performance of the company.

2 Other income

	31 December 2019 \$	31 December 2018 \$
Fees and commissions	1,167,437	1,026,212
Contract management fees	60,685	69,714
Bad debts recovered	88,280	102,921
	<u>1,316,402</u>	<u>1,198,847</u>

3 Expenses

	31 December 2019 \$	31 December 2018 \$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	4,138	1,250
Fixtures and fittings	1,763	857
Motor vehicles	5,025	5,025
Computer software	814	-
Total depreciation	<u>11,740</u>	<u>7,132</u>
<i>Amortisation</i>		
Intangibles	<u>21,156</u>	<u>25,742</u>
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	<u>93,597</u>	<u>81,432</u>
<i>Employee benefits expenses</i>		
Wages and salaries	1,875,308	1,660,784
Workers' compensation costs	9,975	9,167
Defined contribution superannuation expense	152,249	146,336
Payroll tax	107,862	97,746
Total employee benefits expenses	<u>2,145,394</u>	<u>1,914,033</u>
<i>Bad debts expense</i>		
Bad debts	211,587	269,336

4 Fair Values

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

	31 December 2019		30 June 2019	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	13,448,108	13,448,108	22,157,052	22,157,052
Other receivables	33,844	33,844	13,203	13,203
Loans and advances - Real estate	115,535,347	115,798,029	102,777,703	103,026,879
Loans and advances - Consumer	210,174,851	210,664,261	198,424,718	197,413,264
	<u>339,192,150</u>	<u>339,944,242</u>	<u>323,372,676</u>	<u>322,610,398</u>

The carrying amounts for cash and other receivables approximate fair value. The fair values of loans and advances are estimated using a discounted cash flow analysis, based on current lending rates for similar types of lending arrangements ranging from 6.79% to 7.45%.

For the purpose of fair value disclosure under AASB 13 *Fair Value Measurement*, 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.

5 Assets - Cash and cash equivalents

	31 December 2019 \$	30 June 2019 \$
Cash at bank and in hand	<u>13,448,108</u>	<u>22,157,052</u>
Balance as per cash flow statement	<u>13,448,108</u>	<u>22,157,052</u>

6 Assets - Loans and Advances

	31 December 2019 \$	30 June 2019 \$
Term Loans	<u>326,448,524</u>	<u>301,935,760</u>
Unearned Income	<u>(738,328)</u>	<u>(733,319)</u>
Allowance for expected credit losses	<u>(757,793)</u>	<u>(864,989)</u>
Net loans and advances	<u>324,952,403</u>	<u>300,337,452</u>

7 Liabilities - Trade and other payables

	31 December 2019	30 June 2019
	\$	\$
Trade payables	119,316	254,776
Accrued Interest	3,047,021	2,896,147
Amounts due to related parties	813,883	645,873
Accrued expenses	524,701	678,524
Payable to controlling entity under Tax Funding Agreement	37,191	194,589
	4,542,112	4,669,909

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.

8 Liabilities - Interest bearing loans and borrowings

	At 31 December 2019		At 30 June 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	285,834,729	288,089,365	272,201,272	273,685,059

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 1.75% to 1.90%.

For the purposes of fair value disclosure under AASB 13 *Fair Value Measurement*, 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.

9 Contributed equity

	31 December 2019	30 June 2019	31 December 2019	30 June 2019
	Shares	Shares	\$	\$
Ordinary shares				
Issued and paid up capital	40,000,000	40,000,000	20,000,000	20,000,000

10 Retained earnings

Movements in retained earnings were as follows:

	31 December 2019	30 June 2019
Notes	\$	\$
Opening balance	26,826,208	22,551,886
Net profit for the period	2,677,056	4,354,732
Dividends paid	11 (500,000)	-
Adoption of AASB 9	-	(80,410)
Closing balance	<u>29,003,264</u>	<u>26,826,208</u>

11 Dividends

(a) Ordinary shares

Dividends of \$500,000 were paid during the half-year ended 31 December 2019 (2018: nil)

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2019 (2018: nil).

13 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period 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 periods.

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

	31 December 2019	31 December 2018
	\$	\$
Profit for the year	2,677,056	2,082,202
Depreciation and amortisation	32,896	32,874
Allowance for expected credit losses	(107,195)	(63,320)
Credit loss expense	211,587	269,336
Change in operating assets and liabilities:		
Increase/(decrease) in employee entitlements	42,702	29,448
Decrease/(increase) in other assets	(74,969)	(76,801)
Increase in accrued interest payable	150,873	559,614
Decrease in trade and other payables	(289,288)	442,135
(Decrease)/increase in amount payable to head entity under Tax Funding Agreement	(157,398)	(126,037)
Increase in loans and advances	(24,670,737)	(26,658,078)
Increase in borrowings	13,633,457	18,859,238
Increase in deferred tax assets	207,618	16,497
Net cash (outflow)/inflow from operating activities	(8,343,398)	(4,632,892)

**RAC Finance Limited
Directors' declaration
31 December 2019**

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 2 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



Alden Halse
Chairman

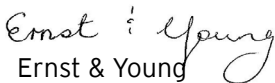
Perth, W.A.

18 February 2020

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

As lead auditor for the review of RAC Finance Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



F Drummond
Partner
18 February 2020

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of RAC Finance Limited (the Company), which comprises the balance sheet as at 31 December 2019, the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

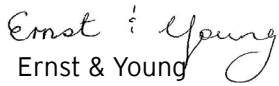
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Fiona Drummond
Partner
Perth
18 February 2020