

Interim financial report

**RAC Finance Limited - for the half year ended
31 December 2020**

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



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2020

Contents

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

Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2020.

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 (resigned 26 October 2020)
Andrew Crane
Helen Cook (resigned 18 November 2020)
Dalton Gooding
Jacqueline Ronchi (appointed 17 November 2020)
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 2020 was \$3,459,775 (2019: \$2,677,056).

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the economy, but the scale and duration of these developments remain uncertain.

Market and economic conditions for the car loan and property development finance markets were subdued during the half year, with the company's focus to maintain liquidity and a conservative credit risk profile. The company made a profit before income tax of \$4,954,356 (2019: \$3,837,655) increasing from the prior half year.

It has been observed that economic conditions have weakened, and it is expected that this will result in lower business activity for the company in the short-term.

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 2020. 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.
16 February 2021

RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2020

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 2020

	31 December	31 December
	2020	2019
Notes	\$	\$
Revenue		
Interest revenue	10,290,086	11,476,010
Interest expense	(3,076,889)	(3,848,924)
Net interest income	7,213,197	7,627,086
Other income	2 1,036,459	1,316,402
Expenses		
Management fees	(682,193)	(800,882)
Depreciation and amortisation expense	3 (42,244)	(32,896)
Other operating expenses	(803,072)	(864,332)
Advertising and promotional expenses	(412,727)	(760,387)
Employee benefits expense	3 (1,697,468)	(2,145,394)
Credit loss expense	3 (206,305)	(211,587)
Expected credit loss expense	6(a) 967,705	107,195
Commissions and fees	(327,033)	(303,953)
Borrowing costs	3 (91,783)	(93,597)
Profit before income tax	4,954,536	3,837,655
Income tax expense	(1,494,761)	(1,160,599)
Profit for the period	3,459,775	2,677,056
Profit is attributable to:		
Owner of RAC Finance Limited	3,459,775	2,677,056

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 2020

	31 December 2020	31 December 2019
	\$	\$
Profit for the period	<u>3,459,775</u>	<u>2,677,056</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>3,459,775</u>	<u>2,677,056</u>
	<u>3,459,775</u>	<u>2,677,056</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 2020

	31 December 2020	30 June 2020
Notes	\$	\$
ASSETS		
Cash and cash equivalents	5 71,802,920	75,234,048
Trade and other receivables	7,709	104,144
Loans and advances	6 273,073,969	312,278,160
Deferred tax assets	788,616	1,060,331
Property, plant and equipment	97,211	101,624
Intangible assets	86,789	155,487
Other assets	469,713	732,277
Total assets	346,326,927	389,666,071
LIABILITIES		
Trade and other payables	7 4,258,395	4,686,728
Interest bearing loans and borrowings	8 287,551,468	333,982,276
Provisions	534,060	473,838
Total liabilities	292,343,923	339,142,842
Net assets	53,983,004	50,523,229
EQUITY		
Contributed equity	9 20,000,000	20,000,000
Retained earnings	10 33,983,004	30,523,229
Total equity	53,983,004	50,523,229

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 2020

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
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)
		-	2,177,056	2,177,056
Balance at 31 December 2019		20,000,000	29,003,264	49,003,264
Balance at 1 July 2020		20,000,000	30,523,229	50,523,229
Profit for the year		-	3,459,775	3,459,775
Balance at 31 December 2020		20,000,000	33,983,004	53,983,004

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 2020

	31 December 2020	31 December 2019
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	11,039,408	12,475,398
Interest received from deposits	167,114	151,038
Interest payments	(3,117,328)	(3,698,051)
Recoveries on loans previously written off	116,516	88,280
Cash payments to employees and suppliers	(1,645,998)	(5,184,638)
Customer loans advanced	(84,971,958)	(110,413,750)
Customer loan repayments received	125,218,278	85,715,247
Proceeds from borrowings	8,288,974	40,616,111
Repayment of borrowings	(54,719,781)	(26,982,654)
Income taxes paid	(1,368,252)	(1,110,379)
Net cash outflow from operating activities	14 (993,027)	(8,343,398)
Cash flows from investing activities		
Payments for intangible assets	(16,896)	-
Payments for property, plant and equipment	(9,071)	(33,557)
Proceeds from sale of property, plant and equipment	13,664	-
Purchase of loan and advances	(2,794,219)	-
Net cash outflow from investing activities	(2,806,522)	(33,557)
Cash flows from financing activities		
Repayments of loans from related parties	368,421	168,011
Dividends paid to parent entity	11 -	(500,000)
Net cash inflow/(outflow) from financing activities	368,421	(331,989)
Net decrease in cash and cash equivalents	(3,431,128)	(8,708,944)
Cash and cash equivalents at the beginning of the financial period	75,234,048	22,157,052
Cash and cash equivalents at end of period	71,802,920	13,448,108

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 2020 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 2020, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2020. 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 2020	31 December 2019
	\$	\$
Fees and commissions	866,644	1,167,437
Contract management fees	53,299	60,685
Bad debts recovered	116,516	88,280
	1,036,459	1,316,402

3 Expenses

	31 December 2020	31 December 2019
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	4,880	4,138
Fixtures and fittings	1,568	1,763
Motor vehicles	6,544	5,025
Computer software	1,056	814
Total depreciation	14,048	11,740
<i>Amortisation</i>		
Intangibles	28,196	21,156
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	91,783	93,597
<i>Employee benefits expenses</i>		
Wages and salaries	1,451,036	1,875,308
Workers' compensation costs	12,214	9,975
Defined contribution superannuation expense	154,615	152,249
Payroll tax	79,603	107,862
Total employee benefits expenses	1,697,468	2,145,394
<i>Bad debts expense</i>		
Bad debts	206,305	211,587

4 Fair Values

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

	31 December 2020		30 June 2020	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	71,802,920	71,802,920	75,234,048	75,234,048
Other receivables	7,709	7,709	104,144	104,144
Loans and advances - Real estate	75,299,376	75,517,742	111,685,379	111,877,959
Loans and advances - Consumer	199,077,355	199,274,132	202,747,573	204,397,243
	<u>346,187,360</u>	<u>346,602,502</u>	<u>389,771,145</u>	<u>391,613,394</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 6.54% to 6.95%.

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 2020 \$	30 June 2019 \$
Cash at bank and in hand	<u>71,802,920</u>	75,234,048
Balance as per cash flow statement	<u>71,802,920</u>	75,234,048

6 Assets - Loans and Advances

	31 December 2020 \$	30 June 2020 \$
Term Loans	275,142,087	315,188,964
Unearned Income	(764,606)	(756,012)
Allowance for expected credit losses	(1,303,512)	(2,154,792)
Net loans and advances*	<u>273,073,969</u>	<u>312,278,160</u>

*On 30 November 2020, the loans and advances portfolio of Motoring Club Finance Limited was purchased for consideration of \$2,794,219.

6 Assets - Loans and Advances (continued)

(a) Allowance for expected credit losses

	31 December 2020	30 June 2020
Opening balance	\$ (2,154,792)	\$ (864,989)
Allowance for expected credit losses acquired on acquisition of loans and advances	(116,425)	-
Expected credit losses	<u>967,705</u>	<u>(1,289,803)</u>
	<u>(1,303,512)</u>	<u>(2,154,792)</u>

Allowance for expected credit loss has decreased in the current period as a result of reduction in hardship loans and a portion of bad debts crystallising.

7 Liabilities - Trade and other payables

	31 December 2020	30 June 2020
	\$	\$
Trade payables	15,692	553,509
Accrued Interest	2,530,045	2,541,693
Amounts due to related parties	716,497	348,077
Accrued expenses	445,517	547,598
Payable to controlling entity under Tax Funding Agreement	550,644	695,851
	<u>4,258,395</u>	<u>4,686,728</u>

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 2020		At 30 June 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	<u>287,551,468</u>	<u>291,938,938</u>	333,982,276	336,704,015

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 0.40% to 0.60%.

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 2020 Shares	30 June 2020 Shares	31 December 2020 \$	30 June 2020 \$
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:

	Notes	31 December 2020 \$	30 June 2020 \$
Opening balance		30,523,229	26,826,208
Net profit for the period		3,459,775	4,697,021
Dividends paid	11	-	(1,000,000)
Closing balance		33,983,004	30,523,229

11 Dividends

(a) Ordinary shares

No dividends were paid during the half-year ended 31 December 2020 (2019: \$500,000)

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2020 (2019: 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 2020	31 December 2019
	\$	\$
Profit for the year	3,459,775	2,677,056
Depreciation and amortisation	29,073	32,896
Write down of assets	56,341	-
Allowance for expected credit losses	(967,705)	(107,195)
Credit loss expense	206,305	211,587
Change in operating assets and liabilities:		
Increase in employee entitlements	60,223	42,702
Decrease/(increase) in other assets	264,511	(74,969)
(Decrease)/increase in accrued interest payable	(40,439)	150,873
Decrease in trade and other payables	(611,114)	(289,288)
Decrease in amount payable to head entity under Tax Funding Agreement	(145,206)	(157,398)
Increase/(decrease) in loans and advances	42,854,301	(24,670,737)
(Decrease)/increase in borrowings	(46,430,807)	13,633,457
Increase in deferred tax assets	271,715	207,618
Net cash outflow from operating activities	(993,027)	(8,343,398)

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 2020 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.
16 February 2021



**Building a better
working world**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's independence declaration to the directors of RAC Finance Limited

As lead auditor for the review of the half-year financial report of RAC Finance Limited for the half-year ended 31 December 2020, 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
Ernst & Young

A handwritten signature in black ink, appearing to read 'F Drummond', written over a horizontal line.

F Drummond
Partner

16 February 2021



**Building a better
working world**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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 2020, 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 director's 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 2020 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.

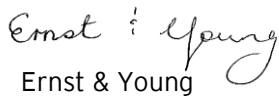
Auditor's responsibility


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 2020 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


F Drummond
Partner
Perth

16 February 2021