

Interim financial report

RAC Finance Limited - for the half year ended
31 December 2017

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



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2017

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Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2017.

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:

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

Review of operations

The entity's profit after tax for the half year ended 31 December 2017 was \$959,301 (2016 \$1,119,052).

Market and economic conditions for the car loan and property development finance markets were stable during the first half of this financial 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 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 2017. The independence declaration can be found on page 15.

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



A Halse
Director

Perth, W.A.

20 February 2018

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RAC Finance Limited
Income statement
For the half-year 31 December 2017

	31 December	31 December
	2017	2016
Notes	\$	\$
Revenue		
Interest revenue	7,585,459	7,494,796
Interest expense	<u>(3,026,098)</u>	<u>(2,752,567)</u>
Net interest income	4,559,361	4,742,229
Other income	2 1,458,092	1,062,900
Expenses		
Management fees	(645,286)	(662,694)
Depreciation and amortisation expense	3 (69,395)	(56,371)
Other operating expenses	(824,342)	(516,275)
Advertising and promotional expenses	(768,261)	(593,368)
Employee benefits expense	3 (1,747,822)	(1,683,236)
Bad debts expense	3 (367,324)	(531,349)
Commissions and fees	(155,613)	(105,497)
Borrowing costs	3 (68,980)	(57,694)
Profit before income tax	1,370,430	1,598,645
Income tax expense	<u>(411,129)</u>	<u>(479,593)</u>
Profit for the period	959,301	1,119,052
Profit is attributable to:		
Owner of RAC Finance Limited	959,301	1,119,052

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 2017

	31 December 2017	31 December 2016
	\$	\$
Profit for the period	<u>959,301</u>	<u>1,119,052</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>959,301</u>	<u>1,119,052</u>
	<u>959,301</u>	<u>1,119,052</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 2017

	31 December	30 June
	2017	2017
Notes	\$	\$
ASSETS		
Cash and cash equivalents	5 15,962,091	15,372,349
Trade and other receivables	5,928	25,289
Loans and advances	6 220,723,118	187,580,205
Deferred tax assets	713,786	597,360
Property, plant and equipment	52,659	108,577
Intangible assets	91,795	99,936
Prepayments	7,461	48,913
Total assets	237,556,838	203,832,629
LIABILITIES		
Trade and other payables	7 3,867,412	3,114,973
Interest bearing loans and borrowings	8 207,368,445	175,311,491
Provisions	316,963	361,448
Total liabilities	211,552,820	178,787,912
Net assets	26,004,018	25,044,717
EQUITY		
Contributed equity	9 5,000,000	5,000,000
Retained earnings	10 21,004,018	20,044,717
Total equity	26,004,018	25,044,717

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 2017

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
Balance at 1 July 2016		5,000,000	19,434,342	24,434,342
Profit for the year		-	1,119,052	1,119,052
Dividends provided for or paid	11	-	(400,000)	(400,000)
		-	719,052	719,052
Balance at 31 December 2016		5,000,000	20,153,394	25,153,394
Balance at 1 July 2017		5,000,000	20,044,717	25,044,717
Profit for the year		-	959,301	959,301
Balance at 31 December 2017		5,000,000	21,004,018	26,004,018

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 2017

	31 December 2017	31 December 2016
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	9,199,273	8,413,254
Interest received from deposits	137,093	118,233
Interest payments	(2,518,246)	(2,466,486)
Recoveries on loans previously written off	75,757	81,620
Cash payments to employees and suppliers	(4,131,879)	(3,536,553)
Customer loans advanced	(90,299,207)	(63,344,725)
Customer loan repayments received	56,332,632	56,554,091
Proceeds from borrowings	38,272,351	12,589,333
Repayment of borrowings	(6,215,398)	(8,894,286)
Income taxes paid	(377,844)	(435,960)
Net cash inflow/(outflow) from operating activities	14 474,532	(921,479)
Cash flows from investing activities		
Payments for intangible assets	(4,224)	(70,985)
Payments for property, plant and equipment	(1,113)	(24,935)
Net cash outflow from investing activities	(5,337)	(95,920)
Cash flows from financing activities		
Repayments of borrowings	120,547	80,683
Dividends paid to parent entity	11 -	(400,000)
Net cash inflow/(outflow) from financing activities	120,547	(319,317)
Net increase/(decrease) in cash and cash equivalents	589,742	(1,336,716)
Cash and cash equivalents at the beginning of the financial period	15,372,349	10,789,223
Cash and cash equivalents at end of period	15,962,091	9,452,507

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 this 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 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the June annual report and any public announcements made by RAC Finance Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 2017, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2017. 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 2017	31 December 2016
	\$	\$
Fees and commissions	1,282,740	730,964
Contract management fees	99,595	250,316
Bad debts recovered	75,757	81,620
	<u>1,458,092</u>	<u>1,062,900</u>

RAC Finance Limited
Notes to the financial statements
31 December 2017
(continued)

3 Expenses

	31 December 2017	31 December 2016
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	374	120
Fixtures and fittings	221	174
Motor vehicles	5,025	3,437
Computer software	51,411	51,411
Total depreciation	<u>57,031</u>	<u>55,142</u>
<i>Amortisation</i>		
Intangibles	<u>12,364</u>	<u>1,229</u>
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	<u>68,980</u>	<u>57,694</u>
<i>Employee benefits expenses</i>		
Wages and salaries	1,528,956	1,466,886
Workers' compensation costs	7,813	8,159
Defined contribution superannuation expense	125,259	123,205
Payroll tax	85,794	84,986
Total employee benefits expenses	<u>1,747,822</u>	<u>1,683,236</u>
<i>Bad debts expense</i>		
Bad debts	367,324	531,349

4 Fair Values

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

	31 December 2017		30 June 2017	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	15,962,091	15,962,091	15,372,349	15,372,349
Other receivables	5,928	5,928	25,289	25,289
Loans and advances - Real estate	73,528,466	73,644,689	58,490,071	58,596,862
Loans and advances - Consumer	147,906,052	148,797,100	129,719,481	130,456,485
	<u>237,402,537</u>	<u>238,409,808</u>	<u>203,607,190</u>	<u>204,450,985</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 6.95% to 7.70%.

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 2017 \$	30 June 2017 \$
Cash at bank and in hand	<u>15,962,091</u>	15,372,349
Balance as per cash flow statement	<u>15,962,091</u>	<u>15,372,349</u>

6 Assets - Loans and Advances

	31 December 2017 \$	30 June 2017 \$
Term Loans	222,130,962	188,892,089
Specific provision for impairment	(187,023)	(181,963)
Unearned Income	(696,444)	(682,536)
Collective provision for impairment	(524,377)	(447,385)
Net loans and advances	<u>220,723,118</u>	<u>187,580,205</u>

7 Liabilities - Trade and other payables

	31 December 2017	30 June 2017
	\$	\$
Trade payables	16,507	132,431
Accrued Interest	2,525,054	2,017,202
Amounts due to related parties	478,506	357,959
Net goods and services tax (GST) payable	(836)	522
Accrued expenses	476,029	384,418
Payable to controlling entity under Tax Sharing Agreement	372,152	222,441
	3,867,412	3,114,973

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 2017		At 30 June 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	207,368,445	207,639,888	175,311,491	175,619,943

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

The fair values of investment notes are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.90% to 3.10%.

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 2017	30 June 2017	31 December 2017	30 June 2017
	Shares	Shares	\$	\$
Ordinary shares				
Issued and paid up capital	10,000,000	10,000,000	5,000,000	5,000,000

10 Retained earnings

Movements in retained earnings were as follows:

	31 December 2017	30 June 2017
Notes	\$	\$
Balance 1 July	20,044,717	19,434,342
Net profit for the period	959,301	2,010,375
Dividends	-	(1,400,000)
Balance 31 December	21,004,018	20,044,717

11 Dividends

(a) Ordinary shares

	31 December 2017	31 December 2016
	\$	\$
Dividends provided for or paid during the half-year	-	400,000

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2017 (2016: 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 from operating activities

	31 December 2017 \$	31 December 2016 \$
Profit for the year	959,301	1,119,052
Depreciation and amortisation	69,395	56,371
Doubtful debts receivable	82,052	(186,051)
Bad debts written off	367,324	531,349
Change in operating assets and liabilities:		
Decrease in employee entitlements	(44,485)	(28,942)
Increase in other assets	435,099	125,170
Increase in accrued interest payable	507,852	286,080
(Decrease)/increase in trade and other payables	(25,671)	227,447
Decrease in amount payable to head entity under Tax Funding Agreement	149,711	(70,484)
Increase in customer loans advanced	(33,966,574)	(6,790,635)
Increase in borrowings	32,056,954	3,695,047
(Increase)/decrease in deferred tax assets	(116,426)	114,117
Net cash outflow from operating activities	<u>474,532</u>	<u>(921,479)</u>

**RAC Finance Limited
Directors' declaration
31 December 2017**

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 2017 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.



A Halse
Director

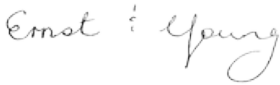
Perth, W.A.

20 February 2018

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 2017, 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
20 February 2018

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 2017, the 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 2017 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.

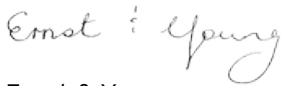
Auditor's responsibility

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 2017 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
20 February 2018