

Interim financial report

RAC Finance Limited - for the half year ended
31 December 2018

RAC Finance Limited
ABN 77 009 066 862
Australian Credit Licence 387972 ¹



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2018

Contents

	Page
Directors' report	1
Interim financial statements	2
Directors' declaration	15

Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2018.

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)
Terry Agnew (Executive Director, Chief Executive Officer) (resigned 1 November 2018)
Dennis Banks
Helen Cook
Andrew Crane
Dalton Gooding
Tim Shanahan
Robert Slocombe (Executive Director, Chief Executive Officer) (appointed 1 November 2018)
Jim Walker

Review of operations

The entity's profit after tax for the half year ended 31 December 2018 was \$2,082,202 (2017 \$959,301).

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, bad debts 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 2018. The independence declaration can be found on page 16.

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



Alden Halse
Chairman

Perth, W.A.
19 February 2019

RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2018

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	15
Auditor's independence declaration	16

RAC Finance Limited
Income statement
For the half-year 31 December 2018

		31 December 2018	31 December 2017
Notes		\$	\$
Revenue			
Interest revenue		10,646,916	7,585,459
Interest expense		<u>(4,051,313)</u>	<u>(3,026,098)</u>
Net interest income		6,595,603	4,559,361
Other income	2	1,198,847	1,458,092
Expenses			
Management fees		(726,091)	(645,286)
Depreciation and amortisation expense	3	(32,874)	(69,395)
Other operating expenses		(678,160)	(824,342)
Advertising and promotional expenses		(853,335)	(768,261)
Employee benefits expense	3	(1,914,033)	(1,747,822)
Bad debts expense	3	(269,336)	(367,324)
Commissions and fees		(262,105)	(155,613)
Borrowing costs	3	<u>(81,432)</u>	<u>(68,980)</u>
Profit before income tax		2,977,084	1,370,430
Income tax expense		<u>(894,882)</u>	<u>(411,129)</u>
Profit for the period		<u>2,082,202</u>	<u>959,301</u>
Profit is attributable to:			
Owner of RAC Finance Limited		2,082,202	959,301

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 2018

	31 December 2018	31 December 2017
	\$	\$
Profit for the period	<u>2,082,202</u>	<u>959,301</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>2,082,202</u>	<u>959,301</u>
	<u>2,082,202</u>	<u>959,301</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 2018

	31 December 2018	30 June 2018
Notes	\$	\$
ASSETS		
Cash and cash equivalents	5 33,598,572	28,217,947
Trade and other receivables	6,003	84,643
Loans and advances	6 287,713,850	261,309,807
Deferred tax assets	817,438	799,473
Property, plant and equipment	55,286	32,136
Intangible assets	128,251	83,656
Prepayments	523,452	436,382
Total assets	<u>322,842,852</u>	<u>290,964,044</u>
LIABILITIES		
Trade and other payables	7 5,233,228	4,244,898
Interest bearing loans and borrowings	8 272,674,033	253,814,795
Provisions	381,913	352,465
Total liabilities	<u>278,289,174</u>	<u>258,412,158</u>
Net assets	<u>44,553,678</u>	<u>32,551,886</u>
EQUITY		
Contributed equity	9 20,000,000	10,000,000
Retained earnings	10 24,553,678	22,551,886
Total equity	<u>44,553,678</u>	<u>32,551,886</u>

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 2018

	Contributed equity \$	Retained earnings \$	Total equity \$
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
Balance at 1 July 2018	<u>10,000,000</u>	<u>22,551,886</u>	<u>32,551,886</u>
Contributions of equity, net of transaction costs and tax	9 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

* Refer to note 1(c)(i)

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 2018

	31 December	31 December
	2018	2017
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	11,491,898	9,199,273
Interest received from deposits	241,598	137,093
Interest payments	(3,491,699)	(2,518,246)
Recoveries on loans previously written off	102,921	75,757
Cash payments to employees and suppliers	(4,174,348)	(4,131,879)
Customer loans advanced	(96,004,035)	(90,299,207)
Customer loan repayments received	69,345,957	56,332,632
Proceeds from borrowings	42,975,296	38,272,351
Repayment of borrowings	(24,116,058)	(6,215,398)
Income taxes paid	(1,004,422)	(377,844)
Net cash (outflow)/inflow from operating activities	14 (4,632,892)	474,532
Cash flows from investing activities		
Payments for intangible assets	(70,335)	(4,224)
Payments for property, plant and equipment	(30,281)	(1,113)
Net cash outflow from investing activities	(100,616)	(5,337)
Cash flows from financing activities		
Repayments of loans from related parties	114,133	120,547
Capital contribution from parent entity	10,000,000	-
Net cash inflow from financing activities	10,114,133	120,547
Net increase in cash and cash equivalents	5,380,625	589,742
Cash and cash equivalents at the beginning of the financial period	28,217,947	15,372,349
Cash and cash equivalents at end of period	33,598,572	15,962,091

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 2018 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 2018, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2018. The adoption of these Standards and Interpretations had no material effect on the financial position or performance of the company.

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

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

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

The effect of adopting AASB 9 is as follows:

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

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

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

1 Summary of significant accounting policies (continued)

(c) Changes in Accounting Policy (continued)

Classification and measurement

There is no significant impact on the company's balance sheet or equity on applying the classification and measurement requirements of AASB 9. Loans and advances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Therefore, reclassification for these instruments is not required.

The impairment provision has been reclassified as an expected credit loss (ECL) upon initial application, however the impairment provision in the comparative information for each of the primary financial statements follows the classification and measurement requirements of AASB 139.

Impairment

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

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

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

Other adjustments

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

2 Other income

	31 December 2018	31 December 2017
	\$	\$
Fees and commissions	1,026,212	1,282,740
Contract management fees	69,714	99,595
Bad debts recovered	102,921	75,757
	<u>1,198,847</u>	<u>1,458,092</u>

3 Expenses

	31 December 2018	31 December 2017
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	1,250	374
Fixtures and fittings	857	221
Motor vehicles	5,025	5,025
Computer software	-	51,411
Total depreciation	7,132	57,031
<i>Amortisation</i>		
Intangibles	25,742	12,364
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	81,432	68,980
<i>Employee benefits expenses</i>		
Wages and salaries	1,660,784	1,528,956
Workers' compensation costs	9,167	7,813
Defined contribution superannuation expense	146,336	125,259
Payroll tax	97,746	85,794
Total employee benefits expenses	1,914,033	1,747,822
 <i>Bad debts expense</i>		
Bad debts	269,336	367,324

4 Fair Values

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

	31 December 2018		30 June 2018	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	33,598,572	33,598,572	28,217,947	28,217,947
Other receivables	6,003	6,003	84,643	84,643
Loans and advances - Real estate	104,644,310	104,749,426	95,353,966	95,474,028
Loans and advances - Consumer	184,054,075	185,212,371	166,888,825	168,274,656
	<u>322,302,960</u>	<u>323,566,372</u>	<u>290,545,381</u>	<u>292,051,274</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 6.86% 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 2018 \$	30 June 2018 \$
Cash at bank and in hand	<u>33,598,572</u>	28,217,947
Balance as per cash flow statement	<u>33,598,572</u>	<u>28,217,947</u>

6 Assets - Loans and Advances

	31 December 2018 \$	30 June 2018 \$
Term Loans	288,698,385	262,242,790
Specific provision for impairment	-	(236,221)
Collective provision for impairment	-	(696,762)
Expected credit loss*	(984,535)	-
Net loans and advances	<u>287,713,850</u>	<u>261,309,807</u>

* Refer to note 1(c)(i)

7 Liabilities - Trade and other payables

	31 December 2018	30 June 2018
	\$	\$
Trade payables	590,494	124,922
Accrued Interest	3,349,487	2,789,873
Amounts due to related parties	679,365	565,231
Accrued expenses	505,807	530,760
Payable to controlling entity under Tax Sharing Agreement	108,075	234,112
	<u>5,233,228</u>	<u>4,244,898</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 2018		At 30 June 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	<u>272,674,033</u>	<u>273,274,751</u>	253,814,795	254,042,473

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

The fair values of investment notes are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.80% to 3.20%.

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 2018	30 June 2018	31 December 2018	30 June 2018
	Shares	Shares	\$	\$
Ordinary shares				
Issued and paid up capital	40,000,000	20,000,000	20,000,000	10,000,000

During the half year, the issued capital was increased by \$10,000,000 by the issue of 20,000,000 ordinary shares.

10 Retained earnings

Movements in retained earnings were as follows:

	31 December 2018	30 June 2018
Notes	\$	\$
Balance 1 July	22,551,886	20,044,717
Net profit for the period	2,082,202	2,507,169
Adoption of new accounting standard*	(80,410)	-
Balance 31 December	<u>24,553,678</u>	<u>22,551,886</u>

* Refer to note 1(c)(i)

11 Dividends

(a) Ordinary shares

No dividends provided for or paid during the half-year ended 31 December 2018 (2017: nil)

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2018 (2017: 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 2018 \$	31 December 2017 \$
Profit for the year	2,082,202	959,301
Depreciation and amortisation	32,874	69,395
Doubtful debts receivable	(63,320)	82,052
Bad debts written off	269,336	367,324
Change in operating assets and liabilities:		
Increase/(decrease) in employee entitlements	29,448	(44,485)
(Increase)/decrease in other assets	(76,801)	435,099
Increase in accrued interest payable	559,614	507,852
Decrease/(increase) in trade and other payables	442,135	(25,671)
(Decrease)/increase in amount payable to head entity under Tax Funding Agreement	(126,037)	149,711
Increase in loans and advances	(26,658,078)	(33,966,574)
Increase in borrowings	18,859,238	32,056,954
Decrease/(increase) in deferred tax assets	16,497	(116,426)
Net cash (outflow)/inflow from operating activities	<u>(4,632,892)</u>	<u>474,532</u>

**RAC Finance Limited
Directors' declaration
31 December 2018**

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 2 to 14 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 2018 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.



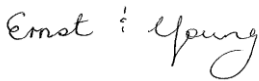
Alden Halse
Chairman

Perth, W.A.
19 February 2019

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 2018, 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
19 February 2019

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 2018, 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 2018 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 2018 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*.

The logo for Ernst & Young, written in a cursive script font.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Fiona Drummond'.

Fiona Drummond
Partner
19 February 2019