

Quarterly Directors' Report

To: **The Trust Company (Australia) Limited**
Level 12, Angel Place
123 Pitt Street
SYDNEY NSW 2000



Quarter: The calendar quarter ended **31 December 2020** ("Quarter")

Date: **18 January 2021**

We refer to the Debenture Trust Deed dated 8 February 1989 (as amended) ("**Trust Deed**") between RAC Finance Limited ("**Issuer**") and The Trust Company (Australia) Limited ("**Trustee**") and to the Debenture Stock ("**Securities**") issued by the Issuer under the Trust Deed, and further, to the Reporting Requirements of the Trust Deed. The issuer has no subsidiaries or guarantor.

This quarterly report ("**Report**") is given to the Trustee by the Issuer pursuant to:

- a. The Australian Securities and Investments Commission ("**ASIC**") Regulatory Guide 69 (RG 69). and specifically, RG 69.92 onwards.
- b. Section 283BF of the *Corporations Act 2001* (Cth) ("**Act**") and
- c. In respect of the information required by clauses 8.3 and 8.4 of the Trust Deed.

A copy of the report as required pursuant to section 283BF of the Act and covered in items 1-3 of this report has been lodged with the Australian Securities and Investments Commission.

1. In respect of the information required by subsection 283BF(4) of the Act, the Issuer confirms to the Trustee that:
 - (a) there has been no failure by the Issuer to comply with the terms of the Securities, the provisions of the Trust Deed or Chapter 2L of the Act during the quarter; and
 - (b) No event has happened during the quarter that has caused, or could cause, one or more of the following:
 - (i) any amount deposited or lent under the Securities to become immediately payable;
 - (ii) the Securities to become immediately enforceable;
 - (iii) any other right or remedy under the terms of the Securities or provisions of the Trust Deed to become immediately enforceable; and
 - (c) No circumstances have occurred during the quarter that materially prejudices:
 - (i) the Issuer; or
 - (ii) any security interest included in or created by the Securities or the Trust Deed; and

- (d) No substantial change in the nature of the business of the Issuer has occurred during the quarter, and
 - (e) None of the following events has happened during the quarter:
 - (i) the appointment of a guarantor,
 - (ii) the cessation of liability of a guarantor body for the payment of the whole or part of the money for which it was liable under the guarantee;
 - (iii) a change of name of a guarantor; and
 - (f) the Issuer has not created a charge where:
 - (i) the total amount to be advanced on the security of the charge is indeterminate;
 - (ii) the advances are merged in a current account with bankers, trade creditors or anyone else; and
 - (g) There are no other matters that may materially prejudice any security interests or other interests of the holders of the Securities.
2. In respect of the information required by subsection 283BF(5) of the Act, the Issuer has not deposited money with or lent money to or assumed any liability of a related body corporate during the quarter; and
3. In respect of the information required by subsection 283BF(6) of the Act, the Issuer confirms to the Trustee that the Issuer has not assumed a liability of a related body corporate during the quarter.
4. In respect of the information required by clause 8.3 of the Trust Deed the Issuer confirms to the Trustee that there are no matters adversely affecting the security or the interests of holders of the Securities, and that:
- (a) No limitation of liability or borrowing as prescribed by the Trust Deed has been exceeded;
 - (b) The Issuer has observed and performed all the covenants and obligations binding upon it by or pursuant to the Trust Deed or any security or instrument supplemental or collateral to the Trust Deed;
 - (c) No event has happened which has or could cause the security created by the Trust Deed to become enforceable;
 - (d) No circumstances affecting the Issuer have occurred that materially affect the Securities; and
 - (e) There has been no substantial change in the nature of the business of the Issuer since the issue of the Securities.
5. In respect of the information required by clause 8.4 of the Trust Deed, the Issuer confirms to the Trustee that:
- a) No material trading or capital loss has been sustained by the Issuer;
 - b) No contingent liabilities have been incurred by the Issuer; and

- c) There has not been any material change in any accounting method or method of valuation of assets or liabilities and no circumstances have arisen which render adherence to the existing method of valuation of assets or liabilities misleading or inappropriate.

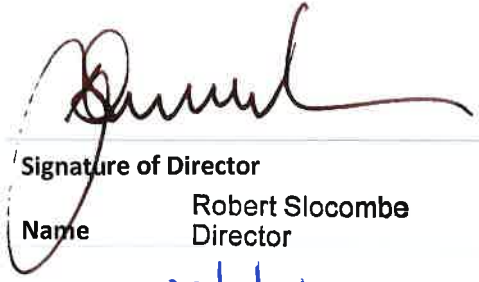
With respect to ASIC RG 69.108, the Directors of the Issuer confirm the following:

- Statements made in the company's prospectus (as contemplated by RG 69) regarding the intended and/or actual use of debenture funds and the intended and/or actual activities of the issuer's business remain current and no deviations have occurred which would require the issue of a supplementary prospectus or continuous disclosure notice.
- The Trustee has been provided with all relevant disclosure documents issued, as and when they were released.
- Information stated in the current prospectus pursuant to the compliance or non-compliance with the benchmarks as set out in RG 69 remains unchanged.

Attached "Annexure A" is an update as at the date of this report against the benchmarks as set out in RG 69.108.

This report was made by the Issuer in accordance with a resolution of the Directors of the Issuer.


Signature of Director
Name Aiden Hulse
Dated 28/1/2021


Signature of Director
Name Robert Slocombe
Director
Dated 28/1/21

ANNEXURE A
ASIC Benchmark Update as at 31 December 2020

ASIC Benchmark	Prospectus #37 (issued 1 Nov 20) Content Addressing the Benchmark	Update as at 31 Dec 2020												
<p>1 Equity Ratio Issuers should maintain a minimum equity ratio [calculated as: equity capital / (total debt + equity capital)] of 20% where more than a minor part (>10%) of its activities is lending funds directly or indirectly for property development and 8% in all other cases</p>	<p>As at 30 June 2020, RAC Finance's equity ratio was 12.97% (14.45% as at 30 June 2019) and is defined as follows:</p> $\frac{\text{Total Equity } \$50.523\text{m}}{\text{Total Liabilities } \$339.143\text{m} + \text{Total Equity } \$50.523\text{m}} = 12.97\%$ <p>This does not satisfy Benchmark 1 which states that a minimum equity of 20.00% should be held for issuers with more than 10.00% of its lending activity directly or indirectly for property development; the benchmark is 8.00% minimum in all other cases. From an investor risk perspective, this might be an insufficient safety margin if RAC Finance were to run into financial difficulties. However, RAC Finance considers that its level of equity is appropriate for the business model described in this prospectus.</p> <p>In the financial year ended 30 June 2020, RAC Finance paid a \$1.000m dividend (2019 - nil) to its parent, RACWA Holdings Pty Ltd. Future dividends may be declared subject to regulatory and liquidity considerations.</p>	<p>The equity ratio as at the date of this report is 15.57% (30 Sep 20: 14.06%).</p>												
<p>2 Liquidity Issuers should have cash flow estimates for the next three months, disclose their policy on balancing the maturity of their assets and the maturity of their liabilities, <i>disclose material assumptions underlying their cash flows</i>, and ensure that at all times they have on hand cash or cash equivalents sufficient to meet their projected cash needs over the next three months</p>	<p>Benchmark 2 is satisfied. RACF ensures that at all times it holds cash or cash equivalents sufficient to meet its projected cash needs over the next three months.</p> <p>RAC Finance projects its cash flow for the next three months at each month end as part of its ongoing compliance management processes. The material assumptions underlying these projections include analysis of recent actual investment and loan movements, likely investment rollovers (but assuming no new investment funds), investment repayments including interest payments and loan transactions including contractual loan repayments.</p> <p>RAC Finance does not have a policy of directly matching investment and loan maturities. RAC Finance considers that its maturity profile is reasonably matched. The majority of the investment funds are invested for a term of one year or less and the average rollover ratio over the six-month period ended 31 August 2020 was 72.72%. Whilst the majority of loans have historically been for terms of one to five years, on average, these have been repaid within three years. RAC Finance uses its average three-monthly re-investment rollover ratio to assess its future cash requirements and stress tests this ratio by 20.00% to allow for any adverse movement in liquidity.</p>	<p>No material change.</p> <p>The average reinvestment rate for the quarter was 60.46% and Sep 2020 was 67.87%.</p>												
<p>3 Rollovers / Maturities (including overdue maturities) Issuers should disclose their approach to rollovers</p>	<p>Benchmark 3 is satisfied by RACF disclosing its policy in relation to rollovers/re-investments. RACF issues a notice of approaching maturity at least one week before the maturity date.</p> <p>At maturity, an investor can re-invest, add funds or redeem all or part of the maturity value. On the maturity date, if no other instruction has been received, RACF will automatically reinvest the maturing principal for the same term and interest payment option as the maturing investment, at the interest rate applicable at the date of maturity.</p> <p>If an investor advises after the maturity date that they do not wish to reinvest, then no interest is payable for that interim period after maturity.</p>	<p>No change</p>												
<p>4 Debt Maturity Issuers should disclose (a) an analysis of the maturity profile of investments by term and value (b) the average interest rate</p>	<p>Benchmark 4 is satisfied by RACF disclosing the following analysis of its debt maturity profile as at 30 June 2020:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #2c4e64; color: white;">Term</th> <th style="background-color: #2c4e64; color: white;">Amount</th> </tr> </thead> <tbody> <tr> <td>Within 3 months</td> <td style="text-align: right;">\$ 78.022m</td> </tr> <tr> <td>Between 3 months and 1 year</td> <td style="text-align: right;">\$ 203.246m</td> </tr> <tr> <td>Between 1 year and 5 years</td> <td style="text-align: right;">\$ 52.714m</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$ 333.982m</td> </tr> <tr> <td>Weighted average effective interest rate</td> <td style="text-align: right;">2.18% pa</td> </tr> </tbody> </table>	Term	Amount	Within 3 months	\$ 78.022m	Between 3 months and 1 year	\$ 203.246m	Between 1 year and 5 years	\$ 52.714m	Total	\$ 333.982m	Weighted average effective interest rate	2.18% pa	<p>Investments issued by RACF are \$287.551m and the weighted average effective interest rate has decreased to 1.71%, as at 31 Dec 2020.</p>
Term	Amount													
Within 3 months	\$ 78.022m													
Between 3 months and 1 year	\$ 203.246m													
Between 1 year and 5 years	\$ 52.714m													
Total	\$ 333.982m													
Weighted average effective interest rate	2.18% pa													

5 Loan Portfolio
Issuers who on lend funds should disclose the current nature of their loan portfolio and their overall approach to lending

RACF satisfies Benchmark 5 and discloses the following:

Loan profile as at 30 June 2020	Consumer	Property	Total
Number of Loans	11,448	106	11,554
In WA	9,478	106	9,584
In SA	1,970	0	1,970
Secured loans	11,271 (98.45%)	106 (100.00%)	11,377 (98.47%)
Largest borrower		1 (0.94%)	1 (0.01%)
10 largest borrowers		11 (10.38%)	11 (0.10%)
In default/arrears - 30 days and greater	97 (0.85%)	0 (0.00%)	97 (0.84%)
Renegotiated within past 6 months that were greater than 30 days in default/arrears	32 (0.28%)	0 (0.00%)	32 (0.28%)
Subject to legal proceedings	0 (0%)	0 (0%)	0 (0%)
Value of loans	\$200.510m	\$111.768m	\$312.278m
In WA	\$161.690m	\$111.768m	\$273.459m
In SA	\$38.820m	\$0.000m	\$38.820m
Secured loans	\$199.621m (99.56%)	\$111.768m (100.00%)	\$311.389m (99.72%)
Largest borrower		\$6.872m (6.15%)	\$6.872m (2.20%)
10 largest borrowers		\$35.471m (31.74%)	\$35.471m (11.36%)
In default/arrears	\$1.474m (0.74%)	\$0.00m (0.00%)	\$1.474m (0.47%)
Principal amount and/or interest amount in default/ arrears - 30 days and greater	\$0.090m	\$0.000m	\$0.090m
Renegotiated within past 6 months that were greater than 30 days in default/arrears	\$0.529m (0.26%)	\$0.000m (0.00%)	\$0.529m (0.17%)
Subject to legal proceedings	\$0.000m (0.00%)	\$0.000m (0.00%)	\$0.000m (0.00%)

No material change to the current nature of the loan portfolio and the overall approach to lending.

RAC Finance generally restricts exposure to any single borrower to \$7.5m, although in certain circumstances particular borrowers may be approved for higher limits.

Where a loan is to be used to purchase property, a motor vehicle or other significant assets, these loans will predominantly be secured by way of a registered encumbrance, mortgage or charge.

RAC Finance considers a loan to be in default/arrears when a payment is 30 days overdue. This does not mean that RAC Finance takes no action prior to this point.

Loans in arrears are managed on an individual basis. For defaulting loans covered by the National Consumer Credit Protection Act 2009 (NCCP) and the Uniform Consumer Credit Code 1996 (UCCC), there is a legal requirement to give the debtor 30 days' prior notice of enforcement. For all other loans (eg. chattel mortgages, mortgages), seven days' notice of enforcement is required. Impaired loans are suspended and provisioned where there is doubt of full recovery.

Loan Portfolio cont/d

RACF also discloses the following analysis of its loan maturity profile as at 30 June 2020:

Term	Amount
Within 3 months	\$43.390m
Between 3 months and 1 year	\$112.778m
Between 1 year and 5 years	\$156.111m
Greater than 5 years	\$0.000m
Total	\$312.278m
Weighted average effective interest rate	6.97% pa

Loan profile as at 31 Dec 2020	Consumer	Property	Total
Number of Loans	11,293	91	11,384
In WA	9,354	91	9,445
In SA	1,939	0	1,939
Secured loans	11,143 (98.67%)	91 (100.00%)	11,234 (98.68%)
Largest borrower		1 (1.10%)	1 (0.01%)
10 largest borrowers		12 (13.19%)	12 (0.11%)
In default/arrears - 30 days and greater	95 (0.84%)	0 (0.00%)	95 (0.83%)
Renegotiated within past 6 months that were greater than 30 days in default/arrears	28 (0.25%)	0 (0.00%)	28 (0.25%)
Subject to legal proceedings	0 (0.00%)	0 (0.00%)	0 (0.00%)
Value of loans	\$197.970m	\$75.103m	\$273.073m
In WA	\$160.603m	\$75.103M	\$235.706M
In SA	\$37.367m	\$0.000m	\$37.367m
Secured loans	\$197.309m (99.67%)	\$75.103m (100.00%)	\$272.413m (99.76%)
Largest borrower		\$5.581m (7.43%)	\$5.581m (2.04%)
10 largest borrowers		\$28.380m (37.79%)	\$28.380m (10.39%)
In default/arrears	\$1.204 (0.61%)	\$0.000m (0.00%)	\$1.204m (0.44%)
Principal amount and/or interest amount in default/ arrears - 30 days and greater	\$0.74m	\$0.000m	\$0.074m
Renegotiated within past 6 months that were greater than 30 days in default/ arrears	\$0.640m (0.32%)	\$0.000m (0.00%)	\$0.640m (0.23%)
Subject to legal proceedings	\$0.000m (0.00%)	\$0.000m (0.00%)	\$0.000m (0.00%)

Loan profile as at 31 Dec 2020.

Analysis of loan maturity profile as at 31 Dec 2020:

Term	Amount
Within 3 months	\$ 34.839m
Between 3 months and 1 year	\$79.508m
Between 1 year and 5 years	\$158.726m
Total	\$273.073m
Weighted average effective interest rate	6.76% pa

<p>6 Related Party Transactions Issuers who on lend funds to related parties should disclose the current nature of their loan portfolio and their overall approach to related party lending</p>	<p>Benchmark 6 is satisfied. RAC Finance’s policy states that related entities requiring a loan must pass the same criteria and be subject to the same terms and conditions as third party applicants.</p> <p>RAC Finance’s parent company RACWA Holdings Pty Ltd holds a 17.88% shareholding in Watermark Enterprises Pty Ltd, a company that develops land and sells property in Western Australia. Watermark Enterprises Pty Ltd has a \$1m loan facility with RAC Finance.</p> <p>Dalton Gooding, a Director of RACWA Holdings Pty Ltd and RAC Finance, is a Director and shareholder of Watermark Enterprises Pty Ltd.</p> <p>The loan facility for Watermark Enterprises Pty Ltd of \$1m represents 0.32% of total loans as at 30 June 2020.</p> <p>The Directors of RAC Finance Limited currently receive directors’ fees for acting in that capacity of less than \$150,000 per annum in aggregate (FY19 \$150,000)</p>	<p>No material adverse change.</p> <p>The Watermark Enterprises Pty Ltd loan facility represents 0.37% of total loans as at 31 Dec 2020.</p>
<p>7 Valuations Issuers lending money for property related activities should disclose their policies and approach to valuations</p>	<p>Benchmark 7 is satisfied. RAC Finance obtains valuations on all property loans on an “as is” and “on completion” basis. If a valuation is more than three months’ old at the time of loan approval, RAC Finance management seek confirmation from the valuer that the value has not deteriorated, otherwise a new valuation is obtained.</p> <p>RAC Finance has an established panel of valuers in Western Australia, appointed by its senior management based on their credentials and reputation. Annually each valuer must provide evidence of current professional indemnity insurance. The choice of a valuer is dependent on their area of expertise, with consideration to pricing and turnaround time, with no valuer conducting more than one third of RAC Finance’s valuation work as at the time of loan approval.</p> <p>As an exception, RAC Finance may, on occasion, choose to accept a valuation from a valuer not on its panel and generally from accredited valuers with other major lenders. RAC Finance has obtained the consent of the Trustee for its panel of valuers.</p> <p>No loan secured by a property asset exceeds 5.00% of the total value of RAC Finance’s loan book.</p>	<p>No material change</p>
<p>8 Lending principles – Loan to Valuation Ratios Issuer should disclose their policy on how and when funds are provided to developers and where it on lends money to property related activities, it should maintain, where the loan relates to property development—70% on the basis of the latest ‘as if complete’ valuation; and in all other cases—80% on the basis of the latest market valuation</p>	<p>Benchmark 8 is satisfied. RAC Finance maintains a maximum 70.00% loan to valuation ratio on the basis of the latest “as if complete” valuation for property development loans. Loan funds are only provided to developers in stages, based on external evidence of the progress of the development. In all other property lending cases RAC Finance maintains a maximum 80.00% loan to valuation ratio on the basis of the latest market valuation (refer to Benchmark 7 – Valuations as to the timing of valuations).</p>	<p>No material change</p>

A. H. H.

Signature of Director

Name

AUDEN HAYES

Dated

28/1/2021

R. S.

Signature of Director

Name

Robert Slocombe
Director

Dated

28/1/21