

Interim financial report

RAC Finance Limited

For the half year ended 31 December 2016

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



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2016

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Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2016.

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 2016 was \$1,119,052 (2015 \$1,016,011).

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 and falling borrowing costs keeping gross lending margins stable across all products.

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 2016. 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.
21 February 2017

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RAC Finance Limited
Income statement
For the half-year 31 December 2016

		31 December 2016	31 December 2015
	Notes	\$	\$
Revenue			
Interest revenue		7,494,796	6,824,777
Interest expense		<u>(2,752,567)</u>	<u>(2,458,416)</u>
Net interest income		4,742,229	4,366,361
 Other income	2	1,062,900	992,695
Expenses			
Management fees		(662,694)	(656,281)
Depreciation and amortisation expense	3	(56,371)	(61,323)
Other operating expenses		(513,957)	(716,634)
Advertising and promotional expenses		(593,368)	(635,563)
Employee benefits expense	3	(1,685,554)	(1,541,079)
Bad debts expense	3	(531,349)	(204,897)
Commissions and fees		(105,497)	(86,329)
Borrowing costs	3	(57,694)	(5,505)
Profit before income tax		1,598,645	1,451,445
 Income tax expense		<u>(479,593)</u>	<u>(435,434)</u>
Profit for the period		1,119,052	1,016,011
 Profit is attributable to:			
Owner of RAC Finance Limited		1,119,052	1,016,011

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 2016

	31 December 2016 \$	31 December 2015 \$
Profit for the period	<u>1,119,052</u>	<u>1,016,011</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>1,119,052</u>	<u>1,016,011</u>
	<u>1,119,052</u>	<u>1,016,011</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 2016

	Notes	31 December 2016 \$	30 June 2016 \$
ASSETS			
Cash and cash equivalents	5	9,452,507	10,789,223
Trade and other receivables		88,226	307,815
Loans and advances	6	185,228,422	178,655,637
Deferred tax assets		472,846	586,963
Property, plant and equipment		163,123	193,329
Intangible assets		84,920	15,164
Prepayments		2,335	32,980
Total assets		195,492,379	190,581,111
LIABILITIES			
Trade and other payables	7	3,554,541	3,028,430
Interest bearing loans and borrowings	8	166,437,876	162,742,829
Provisions		346,568	375,510
Total liabilities		170,338,985	166,146,769
Net assets		25,153,394	24,434,342
EQUITY			
Contributed equity	9	5,000,000	5,000,000
Retained earnings	10	20,153,394	19,434,342
Total equity		25,153,394	24,434,342

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 2016

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
Balance at 1 July 2015		<u>5,000,000</u>	<u>19,488,689</u>	<u>24,488,689</u>
Profit for the year		-	1,016,011	1,016,011
Dividends provided for or paid	11	-	(895,000)	(895,000)
		<u>-</u>	<u>121,011</u>	<u>121,011</u>
Balance at 31 December 2015		<u>5,000,000</u>	<u>19,609,700</u>	<u>24,609,700</u>
Balance at 1 July 2016		<u>5,000,000</u>	<u>19,434,342</u>	<u>24,434,342</u>
Profit for the year		-	1,119,052	1,119,052
Dividends provided for or paid	11	-	(400,000)	(400,000)
		<u>-</u>	<u>719,052</u>	<u>719,052</u>
Balance at 31 December 2016		<u>5,000,000</u>	<u>20,153,394</u>	<u>25,153,394</u>

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 2016

	31 December 2016	31 December 2015
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	8,413,254	7,653,795
Interest received from deposits	118,233	71,397
Interest payments	(2,466,486)	(2,259,584)
Recoveries on loans previously written off	81,620	66,350
Cash payments to employees and suppliers	(3,536,553)	(5,356,744)
Customer loans advanced	(63,344,725)	(67,885,865)
Customer loan repayments received	56,554,091	58,061,430
Proceeds from borrowings	12,589,333	8,661,066
Repayment of borrowings	(8,894,286)	(4,812,675)
Income taxes paid	(435,960)	(411,416)
Net cash outflow from operating activities	14 (921,479)	(6,212,246)
Cash flows from investing activities		
Payments for intangible assets	(70,985)	-
Payments for property, plant and equipment	(24,935)	(26,429)
Proceeds from sale of property, plant and equipment	-	10,585
Net cash outflow from investing activities	(95,920)	(15,844)
Cash flows from financing activities		
Repayments of borrowings	80,683	58,687
Dividends paid to parent entity	11 (400,000)	(895,000)
Net cash outflow from financing activities	(319,317)	(836,313)
Net decrease in cash and cash equivalents	(1,336,716)	(7,064,403)
Cash and cash equivalents at the beginning of the financial period	10,789,223	11,957,649
Cash and cash equivalents at end of period	9,452,507	4,893,246

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 2016 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 2016, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2016. 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 2016 \$	31 December 2015 \$
Fees and commissions	730,964	796,507
Contract management fees	250,316	129,838
Bad debts recovered	81,620	66,350
	1,062,900	992,695

RAC Finance Limited
Notes to the financial statements
31 December 2016
(continued)

3 Expenses

	31 December 2016 \$	31 December 2015 \$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	120	-
Fixtures and fittings	174	174
Motor vehicles	3,437	5,838
Computer software	51,411	51,411
Total depreciation	<u>55,142</u>	<u>57,423</u>
<i>Amortisation</i>		
Intangibles	<u>1,229</u>	<u>3,900</u>
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	<u>57,694</u>	<u>5,505</u>
<i>Employee benefits expenses</i>		
Wages and salaries	1,469,204	1,327,610
Workers' compensation costs	8,159	7,989
Defined contribution superannuation expense	123,205	117,111
Payroll tax	84,986	88,369
Total employee benefits expenses	<u>1,685,554</u>	<u>1,541,079</u>
<i>Bad debts expense</i>		
Bad debts	531,349	204,897

4 Fair Values

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

	31 December 2016		30 June 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash	9,452,507	9,452,507	10,789,223	10,789,223
Other receivables	88,226	88,226	307,815	307,815
Loans and advances - Real estate	64,644,414	64,780,083	67,086,375	67,222,779
Loans and advances - Consumer	120,999,763	122,606,206	111,976,038	112,421,673
	<u>195,177,989</u>	<u>196,920,101</u>	<u>190,154,916</u>	<u>190,736,955</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 7.35% 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 2016	30 June 2016
	\$	\$
Cash at bank and in hand	<u>9,452,507</u>	<u>10,789,223</u>
Balance as per cash flow statement	<u>9,452,507</u>	<u>10,789,223</u>

6 Assets - Loans and Advances

	31 December 2016	30 June 2016
	\$	\$
Term Loans	186,385,599	179,920,291
Specific provision for impairment	(72,561)	(267,180)
Unearned Income	(669,271)	(590,697)
Collective provision for impairment	(415,345)	(406,777)
Net loans and advances	<u>185,228,422</u>	<u>178,655,637</u>

7 Liabilities - Trade and other payables

	31 December 2016 \$	30 June 2016 \$
Trade payables	288,486	8,746
Accrued Interest	2,283,135	1,997,054
Amounts due to related parties	466,045	385,362
Net goods and services tax (GST) payable / (receivable)	1,535	1,977
Accrued expenses	326,298	375,765
Payable to controlling entity under Tax Sharing Agreement	189,042	259,526
	<u>3,554,541</u>	<u>3,028,430</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 2016		At 30 June 2016	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Investment Notes	166,437,876	166,511,670	162,742,829	163,084,660

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 3.20% to 3.30%.

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 2016 Shares	30 June 2016 Shares	31 December 2016 \$	30 June 2016 \$
Ordinary shares				
Issued and paid up capital	10,000,000	10,000,000	5,000,000	5,000,000

RAC Finance Limited
Notes to the financial statements
31 December 2016
(continued)

10 Retained earnings

Movements in retained earnings were as follows:

	31 December 2016	30 June 2016
Notes	\$	\$
Balance 1 July	19,434,342	19,488,689
Net profit for the period	1,119,052	1,840,653
Dividends	11 (400,000)	(1,895,000)
Balance 31 December	<u>20,153,394</u>	<u>19,434,342</u>

11 Dividends

(a) Ordinary shares

	31 December 2016	31 December 2015
	\$	\$
Dividends provided for or paid during the half-year	<u>400,000</u>	<u>895,000</u>

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2016 (2015: 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 2016 \$	31 December 2015 \$
Profit for the year	1,119,052	1,016,011
Depreciation and amortisation	56,371	61,322
Doubtful debts receivable	(186,051)	11,399
Bad debts written off	531,349	204,897
Change in operating assets and liabilities:		
Decrease in employee entitlements	(28,942)	(161,600)
Decrease in other assets	125,170	64,567
Increase in accrued interest payable	286,080	198,832
Increase in trade and other payables	227,447	112,040
Decrease in amount payable to head entity under Tax Funding Agreement	(70,484)	(166,517)
Increase in customer loans advanced	(6,790,635)	(11,592,122)
Increase in borrowings	3,695,047	3,848,390
Decrease in deferred tax assets	114,117	190,535
Net cash outflow from operating activities	<u>(921,479)</u>	<u>(6,212,246)</u>

**RAC Finance Limited
Directors' declaration
31 December 2016**

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 2016 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.



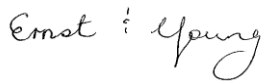
A Halse
Director

Perth, W.A.
21 February 2017

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 2016, 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
21 February 2017

To the members of RAC Finance Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of RAC Finance Limited, which comprises the Balance Sheet as at 31 December 2016, the income statement, 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.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the 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 2016 and its 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 RAC Finance Limited, 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.

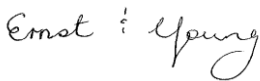
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of RAC Finance Limited 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 2016 and of its 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*.



Ernst & Young



F Drummond
Partner
Perth
21 February 2017