

Interim financial report

**RAC Finance Limited - for the half year ended
31 December 2021**

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



RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2021

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Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2021.

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:

Jim Walker (Chairman)
Andrew Crane
Jacqueline Ronchi
Dalton Gooding
Tim Shanahan
Robert Slocombe (Executive Director, Chief Executive Officer)
Yasmin Broughton

Review of operations

The entity's profit after tax for the half year ended 31 December 2021 was \$2,551,561 (2020: \$3,459,775).

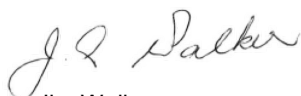
The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the economy, but the scale and duration of these developments remain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

Market and economic conditions for the car loan and property development finance markets were stable 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 \$3,833,187 (2021: \$4,954,536) decreasing from the prior half year.

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 2021. 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.



Jim Walker
Chairman

Perth, W.A.
15 February 2022

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RAC Finance Limited
Income statement
For the half-year 31 December 2021

		31 December	31 December
		2021	2020
	Notes	\$	\$
Revenue			
Interest revenue		9,193,857	10,094,553
Interest expense		(1,407,943)	(3,076,889)
Net interest income		7,785,914	7,017,664
Other income	2	1,380,624	1,036,459
Expenses			
Management fees		(760,030)	(682,193)
Depreciation and amortisation expense	3	(32,848)	(42,244)
Other operating expenses		(794,294)	(803,073)
Advertising and promotional expenses		(888,224)	(412,727)
Employee benefits expense	3	(2,479,305)	(1,697,468)
Credit loss expense	3	(132,523)	(206,305)
Expected credit loss expense	6(a)	71,852	967,705
Commissions and fees		(229,787)	(131,499)
Borrowing costs	3	(88,192)	(91,783)
Profit before income tax		3,833,187	4,954,536
Income tax expense		(1,281,626)	(1,494,761)
Profit for the period		2,551,561	3,459,775
Profit is attributable to:			
Owner of RAC Finance Limited		2,551,561	3,459,775

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 2021

	31 December 2021	31 December 2020
	\$	\$
Profit for the period	<u>2,551,561</u>	<u>3,459,775</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>2,551,561</u>	<u>3,459,775</u>
	<u>2,551,561</u>	<u>3,459,775</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 2021

	Notes	31 December 2021 \$	30 June 2021 \$
ASSETS			
Cash and cash equivalents	5	27,630,725	22,435,040
Trade and other receivables		4,072	4,705
Loans and advances	6	307,586,597	281,386,259
Deferred tax assets		655,627	624,375
Property, plant and equipment		79,886	89,746
Intangible assets		40,573	59,041
Other assets		48,533	104,775
Total assets		336,046,013	304,703,941
LIABILITIES			
Trade and other payables	7	3,010,809	12,588,863
Interest bearing loans and borrowings	8	284,342,851	244,003,754
Provisions		629,341	599,873
Total liabilities		287,983,001	257,192,490
Net assets		48,063,012	47,511,451
EQUITY			
Contributed equity	9	20,000,000	20,000,000
Retained earnings	10	28,063,012	27,511,451
Total equity		48,063,012	47,511,451

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 2021

	Contributed equity \$	Retained earnings \$	Total equity \$
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
Balance at 1 July 2021	20,000,000	27,511,451	47,511,451
Profit for the year	-	2,551,561	2,551,561
Dividends provided for or paid	11 -	(2,000,000)	(2,000,000)
	-	551,561	551,561
Balance at 31 December 2021	20,000,000	28,063,012	48,063,012

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 2021

	31 December	31 December
	2021	2020
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	10,709,532	10,843,874
Interest received from deposits	3,897	167,114
Interest payments	(1,228,069)	(3,117,328)
Recoveries on loans previously written off	76,609	116,516
Cash payments to employees and suppliers	(4,930,205)	(1,573,487)
Customer loans advanced	(123,004,446)	(84,848,935)
Customer loan repayments received	96,253,259	125,218,278
Proceeds from borrowings	62,641,987	8,288,974
Repayment of borrowings	(22,302,890)	(54,719,781)
Income taxes paid	(1,110,404)	(1,368,252)
Net cash inflow/(outflow) from operating activities	14 17,109,270	(993,027)
Cash flows from investing activities		
Payments for intangible assets	-	(16,896)
Payments for property, plant and equipment	(4,518)	(9,071)
Proceeds from sale of property, plant and equipment	-	13,664
Purchase of loan and advances	-	(2,794,219)
Net cash outflow from investing activities	(4,518)	(2,806,522)
Cash flows from financing activities		
Repayments of loans from related parties	(9,909,067)	368,421
Dividends paid to parent entity	(2,000,000)	-
Net cash (outflow)/inflow from financing activities	11 (11,909,067)	368,421
Net decrease in cash and cash equivalents	5,195,685	(3,431,128)
Cash and cash equivalents at the beginning of the financial period	22,435,040	75,234,048
Cash and cash equivalents at end of period	27,630,725	71,802,920

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 2021 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. Some prior year numbers have been reclassified to ensure consistency with current year presentation.

(c) Changes in Accounting Policy

Since 1 July 2021, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2021. 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 2021	31 December 2020
	\$	\$
Fees and commissions	1,304,015	866,644
Contract management fees	-	53,299
Bad debts recovered	76,609	116,516
	1,380,624	1,036,459

3 Expenses

	31 December 2021	31 December 2020
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	7,724	4,880
Fixtures and fittings	1,452	1,568
Motor vehicles	5,203	6,544
Computer software	-	1,056
Total depreciation	14,379	14,048
<i>Amortisation</i>		
Intangibles	18,469	28,196
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	88,192	91,783
<i>Employee benefits expenses</i>		
Wages and salaries	2,166,264	1,451,036
Workers' compensation costs	9,305	12,214
Defined contribution superannuation expense	182,977	154,615
Payroll tax	120,759	79,603
Total employee benefits expenses	2,479,305	1,697,468
 <i>Bad debts expense</i>		
Bad debts	132,523	206,305

4 Fair Values

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

	31 December 2021		30 June 2021	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	27,630,725	27,630,725	22,442,579	22,442,579
Other receivables	4,072	4,072	4,705	4,705
Loans and advances - Real estate	70,869,471	70,862,750	68,273,589	68,271,418
Loans and advances - Consumer	236,572,139	236,680,115	213,025,559	214,099,071
	<u>335,076,408</u>	<u>335,177,662</u>	<u>303,746,432</u>	<u>304,817,773</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 6.12% 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 2021 \$	30 June 2021 \$
Cash at bank and in hand	<u>27,630,725</u>	22,435,040
Balance as per cash flow statement	<u>27,630,725</u>	<u>22,435,040</u>

6 Assets - Loans and Advances

	31 December 2021 \$	30 June 2021 \$
Term Loans	308,218,150	282,070,447
Deferred fees	378,545	391,873
Unearned Income	(776,443)	(770,554)
Allowance for expected credit losses	(233,655)	(305,507)
Net loans and advances	<u>307,586,597</u>	<u>281,386,259</u>

6 Assets - Loans and Advances (continued)

(a) Allowance for expected credit losses

	31 December 2021	30 June 2021
	\$	\$
Opening balance	(305,507)	(2,154,792)
Allowance for expected credit losses acquired on acquisition of loans and advances	-	(116,426)
Expected credit losses	71,852	1,965,711
	(233,655)	(305,507)

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 2021	30 June 2021
	\$	\$
Trade payables	53,170	295,974
Accrued Interest	1,196,637	1,010,188
Amounts due to related parties	800,527	10,716,169
Accrued expenses	703,544	512,076
Payable to controlling entity under Tax Funding Agreement	256,931	54,456
	3,010,809	12,588,863

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 2021		At 30 June 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	284,342,851	284,722,253	244,003,754	245,069,063

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 0.80% to 1.20%.

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 2021 Shares	30 June 2021 Shares	31 December 2021 \$	30 June 2021 \$
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 2021 \$	30 June 2020 \$
Opening balance		27,511,451	30,523,229
Net profit for the period		2,551,561	5,988,222
Dividends paid	11	(2,000,000)	(9,000,000)
Closing balance		28,063,012	27,511,451

11 Dividends

(a) Ordinary shares

\$2,000,000 dividends were paid during the half-year ended 31 December 2021 (2020: nil).

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2021 (2020: 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.

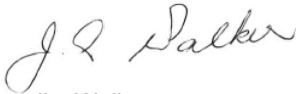
14 Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	31 December 2021	31 December 2020
	\$	\$
Profit for the year	2,551,561	3,459,775
Depreciation and amortisation	32,848	29,073
Write down of assets	-	56,341
Allowance for expected credit losses	(71,852)	(967,705)
Credit loss expense	132,523	206,305
Change in operating assets and liabilities:		
Increase in employee entitlements	29,467	60,223
Decrease in other assets	271,798	192,000
Increase/(decrease) in accrued interest payable	179,873	(40,439)
(Decrease) in trade and other payables	(51,336)	(611,114)
Increase/(decrease) in amount payable to head entity under Tax Funding Agreement	202,475	(145,206)
(Increase)/decrease in loans and advances	(26,475,932)	42,926,812
Increase/(decrease) in borrowings	40,339,097	(46,430,807)
(Increase)/decrease in deferred tax assets	(31,252)	271,715
Net cash inflow/(outflow) from operating activities	17,109,270	(993,027)

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 2021 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.



Jim Walker
Chairman

Perth, W.A.
15 February 2022



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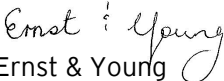
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Auditor's independence declaration to the directors of RAC Finance Limited

As lead auditor for the review of the half-year financial report of RAC Finance Limited for the half-year ended 31 December 2021, 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;
- b. no contraventions of any applicable code of professional conduct in relation to the review; and
- c. no non-audit services provided that contravene any applicable code of professional conduct in relation to the review.


Ernst & Young



F Drummond
Partner

15 February 2022



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Independent auditor's review report to the members of RAC Finance Limited

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 2021, 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, we have not become aware of any matter that makes us believe that the half-year financial report of the Company does not comply with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Company's financial position as at 31 December 2021 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.


Directors' responsibilities 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us 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 2021 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*.

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.


Ernst & Young



F Drummond
Partner
Perth

15 February 2022