

Interim financial report

**RAC Finance Limited - for the half year ended
31 December 2022**

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



RAC Finance Limited

ABN 77 009 066 862

Interim report for the half-year ended 31 December 2022

RAC Finance Limited ABN 77 009 066 862
Interim report - 31 December 2022

Contents

Directors' report	Page 1
Interim financial statements	2
Directors' declaration	14

Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2022.

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 (Chair)
Andrew Crane
Jacqueline Ronchi
Dalton Gooding
Timothy Shanahan
Yasmin Broughton
Vicki Robinson (appointed 28 November 2022)
Robert Slocombe (Executive Director, Group Chief Executive Officer)

Review of operations

The entity's profit after tax for the half year ended 31 December 2022 was \$3,229,274 (2021: \$2,551,561).

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 \$4,613,250 (2021: \$3,833,187), increasing 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 2022. 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
Chair

Perth, W.A.
21 February 2023

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Interim report - 31 December 2022

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	14
Auditor's independence declaration	15

RAC Finance Limited
Income statement
For the half-year 31 December 2022

		31 December 2022	31 December 2021
	Notes	\$	\$
Revenue			
Interest revenue		13,536,375	10,312,310
Interest expense		<u>(3,464,139)</u>	<u>(1,407,943)</u>
Net interest income		10,072,236	8,904,367
Other income	2	268,105	262,171
Expenses			
Management fees		(949,989)	(760,030)
Depreciation and amortisation expense	3	(19,097)	(32,848)
Other operating expenses		(1,182,585)	(794,294)
Advertising and promotional expenses		(731,532)	(888,224)
Employee benefits expense	3	(2,494,069)	(2,479,305)
Credit loss expense	3	(27,188)	(132,523)
Expected credit loss expense	6(a)	30,102	71,852
Commissions and fees		(212,993)	(229,787)
Borrowing costs	3	(139,740)	(88,192)
Profit before income tax		4,613,250	3,833,187
Income tax expense		(1,383,976)	(1,281,626)
Profit for the period		3,229,274	2,551,561
Profit is attributable to:			
Owner of RAC Finance Limited		3,229,274	2,551,561

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 2022

	31 December 2022	31 December 2021
	\$	\$
Profit for the period	<u>3,229,274</u>	<u>2,551,561</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u>3,229,274</u>	<u>2,551,561</u>
	<u>3,229,274</u>	<u>2,551,561</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 2022

	31 December 2022	30 June 2022
Notes	\$	\$
ASSETS		
Cash and cash equivalents	5 50,255,245	18,283,136
Trade and other receivables	3,107	5,603
Loans and advances	6 373,921,353	347,937,859
Deferred tax assets	629,165	710,063
Property, plant and equipment	40,125	47,651
Intangible assets	33,972	26,689
Other assets	71,417	83,888
Total assets	424,954,384	367,094,889
LIABILITIES		
Trade and other payables	7 5,205,381	13,716,539
Interest bearing loans and borrowings	8 355,465,819	302,279,604
Provisions	579,511	624,347
Total liabilities	361,250,711	316,620,490
Net assets	63,703,673	50,474,399
EQUITY		
Contributed equity	9 30,000,000	20,000,000
Retained earnings	10 33,703,673	30,474,399
Total equity	63,703,673	50,474,399

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 2022

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
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
Balance at 1 July 2022		20,000,000	30,474,399	50,474,399
Profit for the year		-	3,229,274	3,229,274
Contributions of equity, net of transaction costs and tax	9	10,000,000	-	10,000,000
		10,000,000	3,229,274	13,229,274
Balance at 31 December 2022		30,000,000	33,703,673	63,703,673

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 2022

	31 December 2022	31 December 2021
Notes	\$	\$
Cash flows from operating activities		
Interest and other operating income from customers	13,323,509	10,709,532
Interest received from deposits	486,431	3,897
Interest payments	(1,819,490)	(1,228,069)
Recoveries on loans previously written off	41,357	76,609
Cash payments to employees and suppliers	(5,681,808)	(4,930,205)
Customer loans advanced	(116,320,701)	(123,004,446)
Customer loan repayments received	90,189,944	96,253,259
Proceeds from borrowings	87,787,986	62,641,987
Repayment of borrowings	(34,601,771)	(22,302,890)
Income taxes paid	(1,414,495)	(1,110,404)
Net cash inflow from operating activities	14 <u>31,990,962</u>	<u>17,109,270</u>
Cash flows from investing activities		
Payments for intangible assets	(15,096)	-
Payments for property, plant and equipment	(3,757)	(4,518)
Net cash outflow from investing activities	<u>(18,853)</u>	<u>(4,518)</u>
Cash flows from financing activities		
Repayment of loans from related parties	-	(9,909,067)
Dividends paid to parent entity	11 -	(2,000,000)
Net cash outflow from financing activities	<u>-</u>	<u>(11,909,067)</u>
Net increase in cash and cash equivalents	31,972,109	5,195,685
Cash and cash equivalents at the beginning of the financial period	<u>18,283,136</u>	<u>22,435,040</u>
Cash and cash equivalents at end of period	<u>50,255,245</u>	<u>27,630,725</u>

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 ("the company").

(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 2022 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 2022, the company has adopted all applicable new Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2022. 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 2022	31 December 2021
	\$	\$
Fees and commissions	226,748	185,562
Bad debts recovered	41,357	76,609
	268,105	262,171

3 Expenses

	31 December 2022	31 December 2021
	\$	\$
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Office machines and equipment	7,669	7,724
Fixtures and fittings	-	1,452
Motor vehicles	3,615	5,203
Total depreciation	11,284	14,379
<i>Amortisation</i>		
Intangibles	7,813	18,469
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	139,740	88,192
<i>Employee benefits expenses</i>		
Wages and salaries	2,142,633	2,166,264
Workers' compensation costs	9,537	9,305
Defined contribution superannuation expense	208,141	182,977
Payroll tax	133,758	120,759
Total employee benefits expenses	2,494,069	2,479,305
 <i>Bad debts expense</i>		
Bad debts	27,188	132,523

4 Fair Values

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

	31 December 2022		30 June 2022	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	50,255,245	50,255,245	18,283,136	18,283,136
Other receivables	3,107	3,107	5,603	5,603
Loans and advances - Real estate	88,601,655	88,601,655	85,333,986	85,330,221
Loans and advances - Consumer	285,220,164	277,053,023	262,575,218	260,720,409

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 7.49% to 10.20%.

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 2022 \$	30 June 2022 \$
Cash at bank and in hand	50,255,245	18,283,136
Balance as per cash flow statement	50,255,245	18,283,136

6 Assets - Loans and Advances

	31 December 2022 \$	30 June 2022 \$
Term Loans	375,041,694	349,089,010
Unearned Income	(782,541)	(783,249)
Allowance for expected credit losses	(337,800)	(367,902)
Net loans and advances	373,921,353	347,937,859

6 Assets - Loans and Advances (continued)

(a) Allowance for expected credit losses

	31 December 2022	30 June 2022
	\$	\$
Opening balance	(367,902)	(305,507)
Expected credit losses	<u>30,102</u>	<u>(62,395)</u>
	<u>(337,800)</u>	<u>(367,902)</u>

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 2022	30 June 2022
	\$	\$
Trade payables	338,270	487,785
Accrued Interest	2,840,069	1,158,407
Amounts due to related parties*	839,148	10,841,562
Accrued expenses	833,457	762,930
Payable to controlling entity under tax funding agreement	354,437	465,855
	<u>5,205,381</u>	<u>13,716,539</u>

*On 26 August 2022, the company fully repaid the \$10,000,000 through the issuance of 20,000,000 ordinary shares to its immediate parent, RACWA Holdings Pty Ltd.

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 2022		At 30 June 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Investment Notes	<u>355,465,819</u>	<u>350,976,049</u>	302,279,674	296,516,419

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 3.00% to 4.60%.

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 2022 Shares	30 June 2022 Shares	31 December 2022 \$	30 June 2022 \$
Ordinary shares Issued and paid up capital	60,000,000	40,000,000	30,000,000	20,000,000

10 Retained earnings

Movements in retained earnings were as follows:

	Notes	31 December 2022 \$	30 June 2022 \$
Opening balance		30,474,399	27,511,451
Net profit for the period		3,229,274	5,662,948
Dividends paid	11	-	(2,700,000)
Closing balance		33,703,673	30,474,399

11 Dividends

(a) Ordinary shares

No dividends were paid during the half-year ended 31 December 2022 (2021: \$2,000,000).

12 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 31 December 2022 (2021: 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 2022 \$	31 December 2021 \$
Profit for the year	3,229,274	2,551,561
Depreciation and amortisation	19,097	32,848
Allowance for expected credit losses	(30,102)	(71,852)
Credit loss expense	27,188	132,523
Change in operating assets and liabilities:		
(Decrease)/increase in employee entitlements	(44,836)	29,467
Decrease in other assets	59,288	271,798
Increase in accrued interest payable	1,644,648	179,873
Decrease in trade and other payables	(44,390)	(51,336)
(Decrease)/increase in amount payable to head entity under tax funding agreement	(111,418)	202,475
Increase in loans and advances	(26,024,901)	(26,475,932)
Increase in borrowings	53,186,215	40,339,097
Decrease/(increase) in deferred tax assets	80,899	(31,252)
Net cash inflow from operating activities	31,990,962	17,109,270

**RAC Finance Limited
Directors' declaration
31 December 2022**

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 2022 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
Chair

Perth, W.A.
21 February 2023



**Building a better
working world**

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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 2022, 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.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'J K Newton'.

J K Newton
Partner
21 February 2023



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working world**

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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 2022, 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 2022 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.

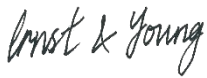
Directors' responsibilities for the half-year financial report

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 2022 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



J K Newton
Partner
Perth
21 February 2023