

# Interim Financial Report

## **RAC Finance Limited**

For the half year ended 31 December 2015

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



**RAC Finance Limited** ABN 77 009 066 862  
**Interim report - 31 December 2015**

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## **Directors' report**

Your Directors present their report on the company for the half-year ended 31 December 2015.

### **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 J Halse (Chairman)  
T T Agnew (Executive Director, Chief Executive Officer)  
D J Banks (Non Executive Director)  
D L Gooding (Non Executive Director)  
J A Walker (Non Executive Director)  
H A Cook (Non Executive Director)  
T M Shanahan (Non Executive Director)

### **Review of operations**

The entity's profit after tax for the half year ended 31 December 2015 was 1,016,011 (2014 \$1,005,467).

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 the high customer retention rates and falling borrowing costs improving gross lending margins 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 2015. The independence declaration can be found on page 15.

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



A J Halse  
Director

Perth, W.A.

**RAC Finance Limited** ABN 77 009 066 862  
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**RAC Finance Limited**  
**Income statement**  
**For the half-year 31 December 2015**

	31 December 2015	31 December 2014
Notes	\$	\$
<b>Revenue</b>		
Interest revenue	6,824,777	7,867,794
Interest expense	<u>(2,458,416)</u>	<u>(3,320,465)</u>
<b>Net interest income</b>	<b>4,366,361</b>	<b>4,547,329</b>
Other income	2      992,695	823,460
<b>Expenses</b>		
Management fees	(656,281)	(670,761)
Depreciation and amortisation expense	3      (61,323)	(61,748)
Other operating expenses	(721,057)	(585,813)
Advertising and promotional expenses	(635,563)	(481,290)
Employee benefits expense	3      (1,536,656)	(1,751,086)
Bad debts expense	(204,897)	(241,707)
Commissions and fees	(86,329)	(109,569)
Borrowing costs	3      (5,505)	(38,416)
<b>Profit before income tax</b>	<b>1,451,445</b>	<b>1,430,399</b>
Income tax expense	<u>(435,434)</u>	<u>(424,932)</u>
<b>Profit for the period</b>	<b>1,016,011</b>	<b>1,005,467</b>
Profit is attributable to:		
Owner of RAC Finance Limited	1,016,011	1,005,467

*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 2015**

	<b>31 December 2015</b>	<b>31 December 2014</b>
	<b>\$</b>	<b>\$</b>
<b>Profit for the period</b>	<u><b>1,016,011</b></u>	<u>1,005,467</u>
Total comprehensive income for the period is attributable to:		
Owner of RAC Finance Limited	<u><b>1,016,011</b></u>	<u>1,005,467</u>
	<u><b>1,016,011</b></u>	<u>1,005,467</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 2015**

	31 December 2015	30 June 2015
Notes	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents	5      4,893,246	11,957,649
Trade and other receivables	217,006	214,415
Loans and advances	6      164,551,541	153,134,410
Deferred tax assets	421,235	611,770
Property, plant and equipment	248,069	289,648
Intangible assets	17,283	21,183
Prepayments	29,929	57,037
<b>Total assets</b>	<u>170,378,309</u>	<u>166,286,112</u>
<b>LIABILITIES</b>		
Trade and other payables	7      2,867,037	2,582,641
Interest bearing loans and borrowings	8      142,553,179	138,704,789
Provisions	348,393	509,993
<b>Total liabilities</b>	<u>145,768,609</u>	<u>141,797,423</u>
<b>Net assets</b>	<u>24,609,700</u>	<u>24,488,689</u>
<b>EQUITY</b>		
Contributed equity	9      5,000,000	5,000,000
Retained earnings	10(a) 19,609,700	19,488,689
<b>Total equity</b>	<u>24,609,700</u>	<u>24,488,689</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 2015**

Parent Entity	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
<b>Balance at 1 July 2014</b>		5,000,000	19,739,259	24,739,259
Profit for the year		-	1,005,467	1,005,467
Dividends provided for or paid	11	-	(1,145,000)	(1,145,000)
		-	(139,533)	(139,533)
<b>Balance at 31 December 2014</b>		<b>5,000,000</b>	<b>19,599,726</b>	<b>24,599,726</b>
<b>Balance at 1 July 2015</b>		5,000,000	19,488,689	24,488,689
Profit for the year		-	1,016,011	1,016,011
Dividends provided for or paid	11	-	(895,000)	(895,000)
		-	121,011	121,011
<b>Balance at 31 December 2015</b>		<b>5,000,000</b>	<b>19,609,700</b>	<b>24,609,700</b>

*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 2015**

	31 December 2015	31 December 2014
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Interest and other operating income from customers	7,653,795	8,327,784
Interest received from deposits	71,397	257,957
Interest payments	(2,259,584)	(2,514,215)
Recoveries on loans previously written off	66,350	100,033
Cash payments to employees and suppliers	(5,356,744)	(3,474,312)
Customer loans advanced	(67,885,865)	(54,466,895)
Customer loan repayments received	58,061,430	67,551,858
Proceeds from borrowings	8,661,066	10,994,065
Repayment of borrowings	(4,812,675)	(12,786,113)
Income taxes paid	(411,416)	(428,977)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>14 (6,212,246)</b>	<b>13,561,185</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(26,429)	-
Proceeds from sale of property, plant and equipment	10,585	-
<b>Net cash outflow from investing activities</b>	<b>(15,844)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Receipts from (repayments of) borrowings	58,687	(21,627)
Dividends paid to parent entity	(895,000)	(1,145,000)
<b>Net cash (outflow) from financing activities</b>	<b>11 (836,313)</b>	<b>(1,166,627)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(7,064,403)</b>	<b>12,394,558</b>
Cash and cash equivalents at the beginning of the financial period	11,957,649	13,400,635
<b>Cash and cash equivalents at end of period</b>	<b>5 4,893,246</b>	<b>25,795,193</b>

*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 2015 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 2015 the company has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2015.

• *AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

This amendment had no effect on the financial position or performance of the company.

The company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## 2 Other income

	31 December 2015	31 December 2014
	\$	\$
Fees and commissions	796,507	689,972
Contract management fees	129,838	33,455
Bad debts recovered	66,350	100,033
	<u>992,695</u>	<u>823,460</u>

**RAC Finance Limited**  
**Notes to the financial statements**  
**31 December 2015**  
 (continued)

**3 Expenses**

	<b>31 December</b>	<b>31 December</b>
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Depreciation</i>		
Office machines and equipment	-	437
Fixtures and fittings	174	174
Motor vehicles	5,838	5,436
Computer software	51,411	51,411
Total depreciation	<b>57,423</b>	<b>57,458</b>
<i>Amortisation</i>		
Intangibles	<b>3,900</b>	4,290
<i>Finance costs</i>		
Borrowing and finance charges paid / payable	<b>5,505</b>	38,416
<i>Employee benefits expenses</i>		
Wages and salaries	1,323,187	1,539,871
Workers' compensation costs	7,989	7,549
Defined contribution superannuation expense	117,111	120,191
Payroll tax	88,369	83,475
Total employee benefits expenses	<b>1,536,656</b>	1,751,086
<i>Bad debts expense</i>		
Bad debts	<b>204,897</b>	241,707

#### 4 Fair Values

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

	31 December 2015		30 June 2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	4,893,246	4,893,246	11,957,649	11,957,649
Other receivables	217,006	217,006	214,415	214,415
Loans and advances - Real estate	58,084,644	58,207,830	52,198,626	52,316,365
Loans and advances - Consumer	106,846,728	107,283,936	101,300,242	102,797,327
	<u>170,041,624</u>	<u>170,602,018</u>	<u>165,670,932</u>	<u>167,285,756</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 8.17% to 8.38%.

For the purpose of fair value disclosure under AASB 13, 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 2015 \$	30 June 2015 \$
Cash at bank and in hand	<u>4,893,246</u>	11,957,649
Balance as per cash flow statement	<u>4,893,246</u>	<u>11,957,649</u>

#### 6 Assets - Loans and Advances

	31 December 2015 \$	30 June 2015 \$
Term Loans	<u>165,601,885</u>	154,200,873
Specific provision for impairment	<u>(172,278)</u>	(176,228)
Unearned Income	<u>(498,234)</u>	(525,751)
Collective provision for impairment	<u>(379,832)</u>	(364,484)
Net loans and advances	<u>164,551,541</u>	<u>153,134,410</u>

## 7 Liabilities - Trade and other payables

	<b>31 December 2015</b>	30 June 2015
	\$	\$
Trade payables	64,236	1,574
Accrued interest	1,915,156	1,716,324
Amounts due to related parties	524,133	465,445
Net goods and services tax (GST) payable / (receivable)	3,475	(1,280)
Accrued expenses	360,037	288,984
Payable to controlling entity under Tax Sharing Agreement	-	111,594
	<b>2,867,037</b>	<b>2,582,641</b>

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

	<b>At 31 December 2015</b>		<b>At 30 June 2015</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	\$	\$	\$	\$
Investment Notes	142,553,179	142,837,051	138,704,789	139,688,877

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 3.40%.

For the purposes of fair value disclosure under AASB 13, 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

### (a) Share capital

	<b>31 December 2015</b>	30 June 2015	<b>31 December 2015</b>	30 June 2015
	<b>Shares</b>	Shares	<b>\$</b>	\$
Ordinary shares Issued and paid up capital	<b>10,000,000</b>	10,000,000	<b>5,000,000</b>	5,000,000

## 10 Retained earnings

### (a) Retained earnings

Movements in retained earnings were as follows:

	<b>31 December 2015</b>	<b>30 June 2015</b>
Notes	\$	\$
Balance 1 July	<b>19,488,689</b>	19,739,257
Net profit for the period	<b>1,016,011</b>	1,894,432
Dividends	<b>(895,000)</b>	(2,145,000)
Balance 31 December	<b><u>19,609,700</u></b>	<u>19,488,689</u>

## 11 Dividends

### (a) Ordinary shares

	<b>31 December 2015</b>	<b>31 December 2014</b>
	\$	\$
Dividends provided for or paid during the half-year	<b><u>895,000</u></b>	<u>1,145,000</u>

## 12 Contingencies

### (a) Contingent liabilities

The company had no contingent liabilities at 31 December 2015 (2014: 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 from operating activities**

	31 December 2015 \$	31 December 2014 \$
Profit for the year	1,016,011	1,005,467
Depreciation and amortisation	61,322	61,749
Doubtful debts receivable	11,399	(104,263)
Bad debts written off	204,897	241,707
Change in operating assets and liabilities:		
(Decrease) / increase in employee entitlements	(161,600)	10,918
Decrease in other assets	64,567	40,560
Increase in accrued interest payable	198,832	806,250
Increase in trade and other payables	112,040	209,929
(Decrease) in amount payable to head entity under Tax Funding Agreement	(166,517)	(49,112)
Decrease / (increase) in customer loans advanced	(11,592,122)	13,084,961
(Decrease) / increase in borrowings	3,848,390	(1,792,048)
Decrease in deferred tax assets	190,535	45,067
Net cash inflow / (outflow) from operating activities	<u>(6,212,246)</u>	<u>13,561,185</u>

**RAC Finance Limited  
Directors' declaration  
31 December 2015**

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 2015 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 J Halse  
Director

Perth, W.A.



## 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 2015, 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



T G Dachs  
Partner  
16 February 2016

## Report on the Half-Year Financial Report to the members of RAC Finance Limited

We have reviewed the accompanying half-year financial report of RAC Finance Limited, which comprises the Balance Sheet as at 31 December 2015, 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 2015 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 2015 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



T G Dachs  
Partner  
Perth  
16 February 2016