

R.A.C.V. Finance Limited ASIC 69 Benchmark report as at 31 August 2014

R.A.C.V. Finance Limited (the Company) issued Prospectus 32 dated 07 August 2013 and a copy was lodged with ASIC on that date. The Company issued a supplementary prospectus dated 16 September 2013 and a copy was lodged with ASIC on that date. An update of the Company's compliance or non-compliance with each benchmark is set out below

Benchmark 1 – Equity ratio

An issuer should maintain a minimum equity ratio (calculated as: equity / (total liabilities + equity)) of 8% where only a minor part of its activity is property development or lending funds directly or indirectly for property development.

We satisfy Benchmark 1. Only a minor part of our activity is property development or lending funds directly or indirectly for property development. As at 31 August 2014 our equity ratio was 19.41%, compared with 23.06% as at 31 August 2013.

Benchmark 2 – Liquidity

An issuer should have cash flow estimates for the next three months and ensure that at all times it has cash or cash equivalents sufficient to meet its projected cash needs over the next three months.

We satisfy Benchmark 2. We maintain cash flow estimates on a rolling three month basis and ensure that at all times we have on hand cash or cash equivalents sufficient to meet our projected cash needs over the next three months.

We do not have a policy of directly matching investments and loan maturities. However, over the past two years greater than 75% of funds invested in Notes have been invested for up to a two year term and the majority of loans lent to borrowers over the past two years have been repaid within two years and ten months.

In estimating cash flows, we take into account a reasonable estimate of rollovers based on our previous experience over the past financial year. Material assumptions underlying cash flow projections include analysis of recent actual investment and loan movements and consideration of budget projections, but exclude new fundraising and new lending business.

Cash flows for the three months to 30 November 2014 are estimated to be as follows:

Inflows	\$74.7m
Outflows	- \$49.6m
Excess cash	\$25.1m

We periodically "stress test" our liquidity assumptions. For example, if you assume a 35% reduction in retention rates of investments in Notes this would result in a further reduction in excess cash of \$11.61 million, [due to lower inflows from reinvestments] reducing total inflows to \$63.11 million (\$74.72m - \$11.61m). This leaves \$13.53 million (\$25.14m - \$11.61m) in excess cash as at 30 November 2014. Therefore even if there is a 35% reduction in retention rates of investments in Notes, there remains sufficient excess cash or cash equivalents to meet projected cash needs over the next three months.

Further, to ensure that at all times we have cash on hand or cash equivalents sufficient to meet our projected cash needs over the next three months, a line of credit facility is available to draw down as required. Further details regarding this credit facility are set out in section 4.1 of Prospectus 32.

Benchmark 3 – Rollovers

An issuer should clearly disclose its approach to rollovers, including what process is followed at the end of the investment term and how it informs those rolling over or making further investments of any current prospectus and continuous disclosure announcements.

We satisfy Benchmark 3. On the Maturity Date, you may choose to have your Notes repaid or rolled over. We will contact you in writing at least 14 days prior to the Maturity Date, setting out your options on maturity of your Notes and seeking your instructions.

If you do not provide instructions by the Maturity Date, the Notes will be automatically rolled-over on the same terms and conditions as the maturing investment at the then current interest rate.

We update our website, www.racv.com.au/finance, with current continuous disclosure announcements, including any new prospectus.

Benchmark 4 – Debt maturity

All issuers should disclose an analysis of the maturity profile of interest-bearing liabilities (including any notes on issue) by term and value, and the interest rates, or average interest rates, applicable to their debts.

We satisfy Benchmark 4. A maturity analysis of our interest-bearing liabilities as at 31 August 2014 is set out below:

– interest bearing liabilities	\$000's
Up to 1 month	16,734
Longer than 1 & no longer than 3 months	27,338
Longer than 3 & no longer than 12 months	141,152
Longer than 1 year & no longer than 5 years	45,728
Total	230,952
Average rate	4.12%

Benchmark 5 – Loan Portfolio

Issuers who directly on-lend funds or indirectly on-lend funds through a related party, should disclose the current nature of its (or the related party's) loan portfolio in relation to a range of specified aspects.

We satisfy Benchmark 5. A summary of the nature of our loan portfolio as at 31 August 2014 is set out below:

- loans (by number and value)

Categories	Number #	Value \$000's
Consumer loans		
Secured	13,610	184,640
Interest free	7	5
Unsecured	186	930
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	13,803	185,575
Business Loans		
Novated Leases	3,500	110,418
Business Goods Mortgage	543	9,612
Commercial Hire Purchase	158	1,909
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	4,201	121,939
Total Loans	18,004	307,514

Note: Business loans are quoted inclusive of deferred income and GST.

- loans maturity analysis (by term and value)

	\$000's
Loan Receivables	
Up to 1 month	5,029
Longer than 1 & no longer than 3 months	10,764
Longer than 3 & no longer than 12 months	46,128
Longer than 1 year & no longer than 5 years	133,077
Longer than 5 years	2,098
Total	197,096
Average Rate	9.95%

Note: The values of loan receivables in the table above are consistent with the benchmark requirements but do not match values in the balance sheet as they indicate actual amounts owed by debtors and do not include accounting entries such as provisions and amortisation or accrued interest.

	\$000's
Lease Receivables	
Less than 1 year	41,467
Longer than 1 year & no longer than 5 years	68,951
Total	110,418
Average Rate	8.11%

Note: Lease receivables are quoted inclusive of deferred income and GST.

- **loans by class of activity and geographic region (by number and value)**

Our business is predominantly the providing of loans to consumers in Victoria. Below is a breakdown of loans by class of activity and geographic region.

State	Consumer loans			Business Loans		
	\$000's	#	% value	\$000's	#	% value
Victoria	99,763	8,217	53.76	55,878	2,073	45.82
Queensland	48,281	3,370	26.02	23,211	718	19.03
New South Wales	25,994	1,443	14.00	17,058	613	13.99
Other States and Territories	11,537	773	6.22	25,793	797	21.16
TOTAL	185,575	13,803		121,940	4,201	

Note: Business loans by geographic region are quoted inclusive of deferred income and GST.

- **proportion of loans in default or arrears (by number and value)**

Total loans in arrears greater than 30 days are targeted to not exceed 2% of total value of loans.

Loans greater than 30 days in arrears	Numbers #	Amount \$000's
Consumer Loans		
31–60 days	52	502
61–90 days	16	135
+90 days	71	748
Business Loans		
31–60 days	24	755
61–90 days	1	26
+90 days	4	66
Total Arrears	168	2,232
Proportion of Total Loans	0.93%	0.73%

- **proportion of renegotiated loans within the past 3 months that were greater than 30 days in default/arrears (by number, value and percentage)**

	Numbers	% of total Nbr	\$000's	% of total value
Total renegotiated	52	0.29	675	0.22

- **proportion of loans subject to legal proceedings (by number, value and percentage)**

	Numbers	% of total Nbr	\$000's	% of total value
Total loans subject to legal proceedings	3	0.02	102	0.03

- **proportion of the total loan monies lent on a “secured” basis and nature of the security (by number and value)**

The proportion of loans that are secured is:

	Numbers	% of total Nbr	\$000's	% of total value
Total secured	17,811	98.93	306,579	99.70

Nature of security

The secured asset for all loans remains the property of the Company until the final payment is made. All loans secured by a tangible asset identifiable by a serial number will be subject to a security which is recorded in the Personal Property Security Register (PPSR).

- **proportion of the total loan monies lent to its largest borrower (by number and value)**

The largest single borrower holds 1 novated lease agreement with an outstanding balance of \$189,573 representing 0.06% of the total loan portfolio and 0.01% of the total number of borrowers.

- **proportion of the total loan monies lent to its 10 largest borrowers (by number and value)**

Our 10 largest borrowers hold 13 loans with balances totalling \$1.3m representing 0.43% of the total loan portfolio and 0.07% of the total number of borrowers.

- **Company’s approach to taking security in relation to its lending**

Security is taken over an asset where possible. Secured loans are for motor vehicles where security is taken over the vehicle in the form of a security which is recorded in the PPSR. Our interest in the PPSR is not released until the final payment is made. Where there may be a shortfall in security held over the motor vehicle, a caveat may be placed over real estate property of the borrower or treated as unsecured.

- **Company’s approach to loan portfolio diversification**

We minimise concentrations of credit risk in relation to all categories of loans by diversification. This is achieved by undertaking transactions with a large number of customers over many sectors and industries. In addition, security is taken over an asset where possible.

- **policy of how and when the Company will lend funds**

We have a lending policy based on critical factors in lending assessment. The critical factors in assessing loan applications are credit history of the borrower, the borrower’s capacity to repay and collateral for securing the amount borrowed. Our loan policy assists in reducing bad debts by minimising loans to high risk borrowers to no more than 3% of the total loan portfolio. This portion of the portfolio stands at 0.75% as at 31 August 2014.

- **Company’s approach to loans in default**

All loans past due are managed on an individual basis to ensure recovery action is prompt and on a timely basis. Currently, past due loans are issued a default notice if a payment is 60 days overdue. The default notice states that if the overdue payment is not made within 35 days of the notice, steps will be taken to repossess the vehicle or other asset secured. Although various steps are taken to repossess a vehicle or other secured asset within the specified time frame, recovery of assets or moneys owed is not always achieved within the target 90 day period due to various procedural hurdles. In certain cases, we will seek to enter into alternative arrangements whereby a borrower has a longer period of time to repay moneys owed if it is likely that we stand a greater chance of minimising losses, or such arrangements are in line with our broader business plans.

Benchmark 6 – Related party transactions

Issuers who on-lend funds should disclose their approach to related party transactions, including how many loans the issuer has made to related parties, the value of those loans, the value of those loans as a percentage of total assets, the assessment and approval process the issuer follows with related party loans when loans are advanced, varied or extended and any policy the issuer has regarding related party lending.

We satisfy Benchmark 6. As at 31 August 2014, we had no loans to related parties, other than in relation to 11 loans with an aggregate value of \$217,959.99 to staff of the Company and of RACV on the same terms as any other borrower. These loans represent 0.07% of our total assets. Loans to related parties are not part of our business strategy. Our policy in relation to related party lending is that any such transactions are conducted on a commercial basis on conditions no more favourable than those available to members or employees. Related party loans are not subject to the approval of the Trustee.

Benchmark 7 – Valuations

If an issuer is involved in (directly or indirectly) or lends money for property-related activities, the issuer should take a specified approach to obtaining and relying on valuations.

We do not satisfy Benchmark 7. Of our total loan portfolio, less than 1.31% represents property-related activities, which are primarily loans provided for home renovations.

We do not lend funds for property development or to property developers, nor do we lend funds for use as part of an integrated property business or mortgage financing. Given that the value of loans relating to home renovations as 31 August 2014 is \$4.0 million on a total portfolio of \$308 million, we do not seek external valuations for home renovation purposes.

Accordingly, we do not satisfy Benchmark 7 in relation to loans provided for home renovations (being property-related activities).

Benchmark 8 – Lending principles - Loan-to-valuations ratios

If an issuer (directly or indirectly) on-lends money in relation to property related activities, the issuer should maintain the following loan-to-valuation ratios:

- **where the loan relates to property development - 70% on the basis of the latest complying valuation; and**
- **in all other cases - 80% on the basis of the latest complying valuation.**

As with Benchmark 7, given that the value of loans relating to home renovations as at 31 August 2014 is \$4.0 million on a total portfolio of \$308 million, we do not seek external valuations for home renovation purposes.

Accordingly, we do not satisfy Benchmark 8 in relation to loans provided for home renovations (being property-related activities).

Confirmation that the promises made in your current prospectus (as contemplated by RG 69.118) remain current and no deviations have occurred which would require the issue of a supplementary prospectus or continuous disclosure notice.

The Company issued a supplementary prospectus dated 16 September 2013 and a copy was lodged with ASIC on that date (**Supplementary Prospectus**).

I confirm that the promises made in Prospectus No 32 dated 07 August 2013 (as amended by the Supplementary Prospectus) remain current and no deviations have occurred which would require the issue of a further supplementary prospectus or continuous disclosure notice.

We note your request that R.A.C.V. Finance Limited provide a copy to the Trustee of all relevant disclosure documents issued, as and when they are released, including any new prospectuses, supplementary prospectuses, general mail-outs to investments holders and continuous disclosure notices.

A handwritten signature in black ink, appearing to read 'Phil Turnbull', written in a cursive style.

PHIL TURNBULL
EXECUTIVE GENERAL MANAGER
BUSINESS OPERATIONS