Contents

This interim financial report covers R.A.C.V. Finance Limited (ABN: 82 004 292 291) as an individual entity. R.A.C.V. Finance Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 7, 485 Bourke Street

Melbourne, VIC, 3000

This interim financial 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 annual report for the year ended 30 June 2018 and any public announcements made by R.A.C.V. Finance Limited during the interim period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial report was authorised for issue by the directors on 27 February 2019. The Company has the power to amend and reissue the financial report.

DIRECTORS' REPORT

The directors of R.A.C.V. Finance Limited ("the Company") present their report together with the financial report of R.A.C.V. Finance Limited for the six months ended 31 December 2018.

Directors in office

The directors in office during the six months ended 31 December 2018 and up to the date of this report are as follows:

Mr G. D. Willis (Chairman)
Mr N. Taylor
Mr G. Robinson

Review of operations and results

During the previous reporting period, the Company made a decision to cease the provision of loans in respect of novated leases and discontinued the provision of loans through its Queensland broker channel.

The operating profit after tax for the six months ended 31 December 2018 was $3,234,977 (31 December 2017: $3,483,118).

The loan and lease portfolios totalled 24,307 loans and leases as at 31 December 2018 (30 June 2018: 23,559).

Dividends

The Company did not pay any dividend during the six months ended 31 December 2018 (31 December 2017: $nil).

Subsequent events

On 8 February 2019, the Company has accepted a new financing facility offer from the National Australia Bank. The facility is for three years with a total limit of $350 million.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 31 December 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Company, the results of those operations and the state of affairs of the Company in subsequent financial periods.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 2.

Rounding of amounts

The Company is of a kind referred to in the Australian Securities and Investments Commission Class Order 2016/191 dated 24 March 2016. Amounts in the Directors' report and Financial Statements, unless otherwise indicated, have been rounded to the nearest thousand dollars in accordance with that Class Order.

This Director's report is signed in accordance with a resolution of the Board of directors.

G. Willis
Director
Melbourne, 27 February 2019

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Auditor's Independence Declaration

As lead auditor for the audit of R.A.C.V. Finance for the half-year ended 31 December 2018, I declare that 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
27 February 2019

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STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 December 2018

	6 months ended 31 December 2018 $'000	6 months ended 31 December 2017 $'000
Interest on loans	12,983	12,261
Interest on leases	2,659	4,033
Interest received from cash at bank	20	18
Interest revenue	15,662	16,312
Interest expense	(5,601)	(6,110)
Net interest revenue	**10,061**	**10,202**
Non-interest revenue	**574**	**701**
Employee benefits expense	(2,594)	(2,261)
Depreciation and amortisation expense	(30)	(21)
Impairment losses on loans and leases	(291)	(322)
Computer and telecommunications expense	(805)	(788)
Advertising expense	(802)	(818)
External fees expense	(433)	(398)
Property expense	(38)	(97)
Finance expense	(361)	(353)
Internal management charges	(472)	(804)
Other expenses	(102)	(54)
Profit before income tax expense	**4,707**	**4,987**
Income tax expense	(1,472)	(1,504)
Profit for the six month period attributable to the parent entity	**3,235**	**3,483**
Total comprehensive income for the six month period	**3,235**	**3,483**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET
As at 31 December 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
Assets			
Cash and cash equivalents		4,706	1,978
Receivables	2	436,457	431,336[1]
Prepayments		281	323
Intangible assets		117	138
Total assets		**441,561**	**433,775[1]**
Liabilities			
Trade creditors and accruals		1,209	949
Amounts payable to related entities		8,473	3,157
Interest bearing liabilities	3	353,680	354,329
Employee benefits		859	771
Deferred tax liabilities		2,515	2,979[1]
Total liabilities		**366,736**	**362,185[1]**
Net assets		**74,825**	**71,590[1]**
Equity			
Contributed equity		15,000	15,000
Retained earnings		59,825	56,590[1]
Total equity		**74,825**	**71,590[1]**

[1] Restated amount. See note 6.

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
For the six months ended 31 December 2018

	6 months ended 31 December 2018 $'000	6 months ended 31 December 2017 $'000
Cash flows from operating activities		
Interest received	16,791	17,258
Fees, commission and other income received	803	583
Tax payments to related entity	-	(1,266)
Net cash outflow from loans	(26,958)	(16,292)
Net cash inflow from leases	20,188	6,275
Payments to suppliers and employees	(1,835)	(4,357)
Interest and other costs of finance paid	(5,950)	(6,004)
Net cash inflow/(outflow) from operating activities	**3,039**	**(3,803)**
Cash flows from investing activities		
Purchase of intangibles	(9)	-
Net cash outflow from investing activities	**(9)**	**-**
Cash flows from financing activities		
Net (repayment)/ proceeds (of)/from secured notes	(8,302)	12,726
Net proceeds/(repayment) from/(of) subscription agreement	8,000	(9,000)
Net cash (outflow)/inflow from financing activities	**(302)**	**3,726**
Net increase/(decrease) in cash held	2,728	(77)
Cash and cash equivalents at the beginning of the six month period	1,978	2,297
Cash and cash equivalents at end of six month period	**4,706**	**2,220**

The above statement of cash flows should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2018

	Contributed equity $'000	Retained profits $'000	Total equity $'000
Six months ended 31 December 2018			
Balance at 1 July 2018	15,000	56,590[1]	71,590
Total comprehensive income for the six month period	-	3,235	3,235
Balance at 31 December 2018	**15,000**	**59,825**	**74,825**
Six months ended 31 December 2017			
Balance at 1 July 2017	15,000	49,845	64,845
Total comprehensive income for the six month period	-	3,483	3,483
Balance at 31 December 2017	**15,000**	**53,328**	**68,328**

[1] Restated amount. See note 6.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

1. BASIS OF PREPARATION OF SIX MONTHS REPORT

This interim financial report for the six months reporting period ended 31 December 2018 has been prepared on a liquidity basis and in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial 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 annual financial report for the year ended 30 June 2018 and any public announcements made by R.A.C.V. 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 with exception of the revenue recognition and impairment policies, which have been amended to comply with the requirements of the new accounting standards applicable from 1 July 2018, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* (Refer to note 6 for details of the amended accounting policies).

2. RECEIVABLES

	Loan receivables $m	Lease receivables $m	Other receivables $m	Total $m
31 December 2018				
Gross receivables	369,377	75,092	38	444,507
Deferred income	-	(6,495)	-	(6,495)
Provision for impairment	(1,122)	(433)	-	(1,555)
Total	368,255	68,164	38	436,457

	Loan receivables $m	Lease receivables $m	Other receivables $m	Total $m
30 June 2018				
Gross receivables	344,392	97,895	48	442,335
Deferred income	-	(9,354)	-	(9,354)
Provision for impairment	(976)[1]	(669)[1]	-	(1,645)[1]
Total	343,416[1]	87,872[1]	48	431,336[1]

Loans are granted at a fixed interest rate for periods between 12 and 84 months with most loans secured by a goods mortgage over a motor vehicle. The mortgaged property must be insured for its full insurable value. Loans can be repaid before their full term, however early termination fees may apply.

Leases are provided for periods between 6 and 60 months and are subject to a fixed interest rate. The leased property is owned by the Company until all lease payments and the residual are repaid. Finance leases transfer all the risks and benefits incidental to ownership of the leased property from the lessor to the lessee. It is a requirement of the lease agreement that the property must be insured for its full insurable value. A lease can be terminated early only with the consent of the Company.

(a) Movement in Provision for Impairment

	6 months ended 31 December 2018 $'000	12 months ended 30 June 2018 $'000
Opening balance	1,645	1,738
Provision for impairment charged during the period	291	519[1]
Bad debts written off during the period	(381)	(612)
Closing balance	1,555	1,645[1]

[1] Restated amount. See note 6 for further details.

2. RECEIVABLES (continued)

(b) Accounting Estimates, Assumptions and Judgements: Provision for Impairment of Loan and Lease Receivables

(i) Classification

From 1 January 2018, the Company classifies its financial assets as those to be measured at amortised cost. The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as separate line item in the statement of profit or loss.

(iii) Impairment

AASB 9 replaces the AASB 139's incurred loss model with an expected loss model. Whilst the ultimate credit loss under both AASB 9 and AASB 139 is the same over the lifetime of the asset, AASB 9's expected credit loss (ECL) requirements requires earlier recognition of credit impairments.

The impairment requirements apply to financial assets measured at amortised cost, and lease receivables. For lease receivables, the Company applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For loan receivables, the Company applies a three-stage approach to measuring the ECL based on changes in the financial asset's underlying credit risk.

(a) Stage 1: 12 month ECL

At initial recognition, and for financial assets for which there has not been a significant increase in credit risk (SICR), ECL is determined based on the probability of default (PD) over the next 12 months and the life time losses associated with such PD. Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount.

(b) Stage 2: Lifetime ECL not credit-impaired

When there has been a SICR, the ECL is determined with reference to the financial asset's life-time PD and the lifetime losses associated with that PD. The Company assesses whether there has been a SICR since initial recognition based on qualitative and quantitative data. Interest income is determined with reference to the financial asset's EIR and the financial asset's gross carrying amount

(c) Stage 3: Lifetime ECL credit-impaired

Financial assets are classified as stage 3 where they are determined to be credit impaired, which is where loans are more than 60 days past due or flagged as 'At Risk'.

The ECL for credit impaired financial assets is generally measured as the difference between the contractual and expected cash flows from the individual exposure, discounted using the EIR for that exposure. Interest income is determined with reference to the financial asset's EIR and the financial asset's amortised cost carrying value, being the exposures gross carrying value after the ECL provision.

3. INTEREST BEARING LIABILITIES

	31 December 2018 $'000	30 June 2018 $'000
Secured		
Secured notes	191,820	200,080
Subscription agreement	159,500	151,500
	351,320	351,580
Accrued interest payable	2,360	2,749
	353,680	354,329
Maturity analysis – secured notes, subscription agreement and unsecured notes		
Up to 1 month	44,244	152,041
Longer than 1 and not longer than 3 months	163,630	59,418
Longer than 3 months and not longer than 12 months	97,229	104,374
Longer than 1 year and not longer than 5 years	48,577	38,496
	353,680	354,329

(a) Secured notes

Secured notes are issued at a fixed rate for periods between six months and four years. Secured notes are initially recorded at their fair value and subsequently measured at amortised cost. Interest expense is recognised using the effective interest method and is payable on a quarterly, six monthly or annual basis depending upon the notes selected.

Secured notes are secured by a first floating charge over the Company's assets under a Debenture Stock and Unsecured Notes Supplemental and Consolidated Trust Deed ("Trust Deed") dated 4 May 2000. On 9 June 2015, the Trust Company (Australia) Limited replaced the original Trustee under and for the purposes of the Trust Deed. All other terms of the Trust Deed remain unchanged.

Under the terms of the Trust Deed, the Company may in certain circumstances give charges over its assets wherever situated, ranking equally with or in priority to the security constituted by the charges under the Trust Deed, subject to borrowing limits which require:

(i) secured liabilities to not exceed 85% of the tangible assets of the Company and any guarantor bodies;
(ii) prior secured liabilities to not exceed 10% of the tangible assets of the Company and any guarantor bodies; and
(iii) external liabilities to not exceed 93.75% of the tangible assets of the Company and any guarantor bodies.

3. INTEREST BEARING LIABILITIES (continued)

(b) Subscription agreement

The current subscription agreement is a secured borrowing facility carried at amortised cost and bears interest at market rates.

On 1 March 2017, an existing facility with National Australia Bank (NAB) was renewed with a Fourth Amendment Deed to increase the funding limit to $180 million (previously $130 million). The facility can be drawn for periods up to six calendar months and expires on 31 March 2019.

The Company has re-negotiated a new funding facility and contracts are expected to be in place by the end of February 2019. The Company presently has a credit-approved commitment for $350 million.

As at 31 December 2018, $159.5 million of the $180 million facility was drawn (30 June 2018: $151.5 million). This facility has been secured by secured notes. The individual drawdown amounts bear fixed interest rates with rollover date and interest rate as shown below:

	Principal amount $'000	Interest rate (payable at rollover) % p.a.	Rollover date
31 December 2018	1,000,000	2.53	7 January 2019
	1,000,000	2.54	7 January 2019
	24,500,000	2.57	24 January 2019
	12,500,000	2.57	8 February 2019
	1,000,000	2.61	25 February 2019
	118,500,000	2.64	25 February 2019
	1,000,000	2.66	25 February 2019
30 June 2018	10,000,000	2.63	10 July 2018
	119,500,000	2.54	23 July 2018
	15,000,000	2.65	31 August 2018
	7,000,000	2.72	31 August 2018

	31 December 2018 $'000	30 June 2018 $'000
4. COMMITMENTS		
Credit related commitments		
Customer loans and leases approved but undrawn at reporting date	6,243	7,463

5. SUBSEQUENT EVENTS

On 8 February 2019, the Company has accepted a new financing facility offer from the National Australia Bank. The facility is for three years with a total limit of $350 million.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 31 December 2018 and the date of this report that have significantly affected or may significantly affect the operations of the Company, the results of those operations and the state of affairs of the Company in subsequent financial periods.

6. NEW ACCOUNTING STANDARDS APPLIED

AASB 9 addresses classification, measurement and derecognition of financial assets and financial liabilities. The standard also sets out new rules for hedge accounting and introduces a new impairment model. It is applicable to annual reporting periods beginning on or after 1 January 2018 with early adoption available. RACV Finance have adopted the changes from 1 July 2018.

AASB 9 requires that financial assets be classified on initial recognition as measured at amortised cost or fair value. The classification and measurement of liabilities remain unchanged except in relation to financial liabilities that are designated at fair value through profit and loss.

The new impairment model is an expected credit loss (ECL) model which results in the earlier recognition of credit losses. The Company has calculated that the new model for the provision for impairment as at 30 June 2018 would have been $0.08 million higher than the reported provision based on the incurred loss model. This change has been implemented in the current provision.

As permitted by AASB 9, the Company has adopted the full retrospective approach and restated its opening balances of the earliest comparative period presented for the impact of the adoption of AASB 9's classification and measurement, and impairment requirements (Refer to Note 6).

The amended accounting policies are as follows:

Fees and commission income
AASB 15 replaces all the previous guidance on revenue recognition from contracts with customers. It requires the identification of discrete performance obligations within a customer contract and an associated transaction price that is allocated to these performance obligations, which occur when control of the goods or services is transferred to the customer.

The key judgements in applying AASB 15 include the timing and amount of variable consideration to be recognised in relation to performance fees; determining whether multiple services provided in a single contract are distinct; and determining when incurred expenses can be presented net of any associated revenue.

Fee income received relating to the creation of financial assets together with the related transaction costs, are deferred and recognised as an adjustment to the effective interest rate. Other fee and commission revenue is recognised as it accrues.

Loan receivables
There had been no change in our accounting policy except for the establishment of provision for impairment using the AASB 9 full approach to measuring expected credit losses which uses the new impairment model to calculate the expected credit loss by applying a three-stage approach based on changes in the underlying credit risk for all loan receivables as described in Note 2.

Lease receivables
There had been no change in our accounting policy except for the establishment of provision for impairment using the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all lease receivables.

Balance Sheet extract

	30 June 2018 as originally presented	Remeasurement under AASB 9	30 June 2018 Restated
Loan receivable	342,829	587	343,416
Lease receivable	88,350	(478)	87,872
	431,179	109	431,288
Provision for impairment	(1,754)	109	(1,645)
Deferred tax	(2,946)	(33)	(2,979)
Retained Earnings	(56,514)	(76)	(56,590)

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the half-year financial reports and notes set out on pages 4 to 11 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 Company's financial position as at 31 December 2018 and of its performance for the six months 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 the directors.

On behalf of the R.A.C.V. Finance Company Board

G. Willis
Director
Melbourne, 27 February 2019

Independent auditor's report

To the members of R.A.C.V. Finance

Our opinion

In our opinion:

The accompanying half-year financial report of R.A.C.V. Finance (the Company) is 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 2018 and of its financial performance for the half-year then ended

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

What we have audited

The half-year financial report comprises:

- the balance sheet as at 31 December 2018
- the statement of comprehensive income for the half-year then ended
- the statement of changes in equity for the half-year then ended
- the statement of cash flows for the half-year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the half-year financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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* (the Code) that are relevant to our audit of the half-year financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
27 February 2019