Contents

This 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

A description of the Company's principal activities and review of operations is included in the Directors' report on page 1.

The financial report was authorised for issue by the directors on 1 September 2021. The Company has the power to amend and reissue the financial 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 year ended 30 June 2021.

Directors in office

The directors in office during the whole of the financial year ended 30 June 2021 and up to the date of this report are as follows:

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

Ms J. Stanley was appointed as a director on 2 March 2021 and continues in office to the date of this report.

Ms J. Green was a director from the beginning of the financial year until her resignation on 1 March 2021.

Principal activities

The principal activities of the Company during the financial year were motor vehicle financing, personal and commercial loans.

Review of operations and results

The operating profit after tax for the financial year ended 30 June 2021 was $4,446,705 (2020: $2,345,533). In 2020, the operating profit after tax included an additional provision charge of $909,677 for the expected credit loss as a result of COVID-19. In 2021, the operating profit after tax included a reduction in this additional provision by $341,895, reflecting lower COVID-19 risk.

The number of loans and leases totalled 21,872 as at 30 June 2021 (2020: 25,512).

Dividends

The Company paid an unfranked dividend of $15.0 million on 7 September 2020. Since the end of the financial year, the directors have recommended an unfranked dividend of $4.0 million to be paid out of retained earnings at 30 June 2021.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company during the financial year which have not been disclosed in the financial report.

Subsequent events

Since the end of the financial year, the directors have recommended an unfranked dividend of $4.0 million to be paid out of retained earnings at 30 June 2021.

The Royal Automobile Club of Victoria (RACV) Ltd and the Company are parties to a letter of Financial Support under which the directors of RACV Ltd have undertaken to provide sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. This undertaking is provided for a minimum period of twelve months from 1 September 2021.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 30 June 2021 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.

Likely developments

In the opinion of the directors, the inclusion of all information referring to likely developments in the operations of the Company and the expected results of those operations in subsequent periods would be likely to result in unreasonable prejudice to the Company. That information has therefore not been included in this report.

Environmental regulations

The Company has assessed whether there are any particular or significant environmental regulations which apply. It has determined that the risk of non-compliance is low and has not identified any compliance breaches during the year.

Indemnification and insurance of directors and officers

To the extent permitted by law, Royal Automobile Club of Victoria (RACV) Ltd, being the ultimate parent entity, has indemnified each director, secretary and officer against a liability arising from their role as directors and officers, by paying premiums on an insurance contract. This insurance contract prohibits disclosure of the premium paid. No liabilities have arisen under these indemnities as at the date of this report.

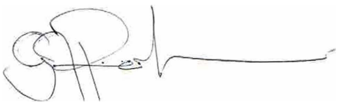
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Rounding of amounts

The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191, dated 24 March 2016 issued by the Australian Securities and Investments Commission. Amounts in this Directors’ report and the Financial Statements, unless otherwise indicated, have been rounded to the nearest thousand dollars in accordance with that Instrument.

This Directors’ report is signed in accordance with a resolution of the Board of directors.



Mr G. Robinson
Chairman

Melbourne
1 September 2021

Auditor's Independence Declaration

As lead auditor for the audit of R.A.C.V. Finance Limited for the year ended 30 June 2021, 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
1 September 2021

Contents of Financial Statements

	Notes	**2021 $'000**	2020 $'000
Interest on loans		24,213	29,599
Interest on leases		1,106	2,637
Interest received from cash at bank		24	40
Interest revenue		25,343	32,276
Interest expense		(7,601)	(11,924)
Net interest revenue		**17,742**	**20,352**
Non-interest revenue		1,826	1,284
Total revenue		**19,568**	**21,636**
Employee benefits expense		(4,838)	(4,950)
Advertising expense		(474)	(1,713)
Computer and telecommunication expense		(3,376)	(2,185)
Internal management charges		(331)	(1,004)
External fees expense		(631)	(903)
Finance expense		(760)	(924)
Impairment losses on loans and leases	2(a)	(348)	(2,379)
Property expense		(52)	(186)
Depreciation and amortisation expense		(13)	(39)
Remediation expense	4	-	(3,848)
Other expenses		(367)	(200)
Total expenses		**(11,190)**	**(18,331)**
Profit before income tax expense		**8,378**	**3,305**
Income tax expense	7	(3,932)	(959)
Profit attributable to the parent entity		**4,446**	**2,346**
Total comprehensive income for the financial year		**4,446**	**2,346**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Notes	**2021 $'000**	2020 $'000
Assets			
Cash and cash equivalents	1	15,507	7,291
Receivables	2	384,375	446,259
Prepayments		64	195
Intangible assets	3	60	1,623
Deferred tax assets	8	-	1,092
Total assets		**400,006**	**456,460**
Liabilities			
Trade creditors and accruals	4	1,306	5,142
Amounts payable to related entities	9(d)(ii)	3,894	2,978
Interest bearing liabilities	5	325,075	368,070
Employee benefits		866	851
Total liabilities		**331,141**	**377,041**
Net assets		**68,865**	**79,419**
Equity			
Contributed equity		15,000	15,000
Retained earnings		53,865	64,419
Total equity		**68,865**	**79,419**

The above Balance Sheet should be read in conjunction with the accompanying notes.

	Notes	**2021 $'000**	2020 $'000
Cash flows from operating activities			
Interest received		28,525	34,598
Fees, commission and other income received		1,743	1,292
Tax payments to related entity		(3,845)	(3,828)
Net cash inflow/(outflow) from loans		41,574	(28,726)
Net cash inflow from leases		16,863	26,430
Payments to suppliers and employees		(10,971)	(14,342)
Interest and other costs of finance paid		(8,795)	(11,933)
Net cash inflow from operating activities	1(a)	**65,094**	**3,491**
Cash flows from investing activities			
Purchase of intangibles		-	(1,579)
Net cash outflow from investing activities		**-**	**(1,579)**
Cash flows from financing activities			
Net (repayment)/proceeds from secured notes	1(b)	(54,878)	4,398
Net proceeds/(repayment) from subscription agreements	1(b)	13,000	(1,000)
Dividends paid		(15,000)	-
Net cash (outflow)/inflow from financing activities		**(56,878)**	**3,398**
Net increase in cash and cash equivalents		**8,216**	**5,310**
Cash and cash equivalents at the beginning of financial year		7,291	1,981
Cash and cash equivalents at end of financial year	1	**15,507**	**7,291**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

	Contributed equity* $'000	Retained earnings $'000	Total equity $'000
Year ended 30 June 2021			
Balance at 1 July 2020	15,000	64,419	79,419
Total comprehensive income for the financial year	-	4,446	4,446
Dividends paid	-	(15,000)	(15,000)
Balance at 30 June 2021	**15,000**	**53,865**	**68,865**
Year ended 30 June 2020			
Balance at 1 July 2019	15,000	62,073	77,073
Total comprehensive income for the period	-	2,346	2,346
Balance at 30 June 2020	**15,000**	**64,419**	**79,419**

*15,000,000 fully paid ordinary shares (2020: 15,000,000 fully paid ordinary shares)

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

WORKING CAPITAL MANAGEMENT

1. CASH AND CASH EQUIVALENTS

	2021 $'000	2020 $'000
Cash at bank	15,507	7,291

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company has a bank overdraft facility available to the extent of $1,000,000 (2020: $1,000,000), which is subject to periodic review by the bank. The unused amount of the facility was $1,000,000 (2020: $1,000,000). At reporting date the bank overdraft, after adjustment for unpresented cheques, was $nil (2020: $nil).

(a) Reconciliation of net cash inflow from operating activities to net profit after income tax

	2021 $'000	2020 $'000
Profit after income tax	4,446	2,346
Add non-cash items:		
Depreciation and amortisation expense	13	39
Impairment losses on loans and leases (excluding recoveries received)	981	2,003
Amortised interest - receivables and secured notes	2,855	2,471
Amortised fees - subscription agreements	125	219
Changes in operating assets and liabilities:		
Decrease/(increase) in loan receivables	41,217	(28,958)
Decrease in lease receivables	16,863	26,429
Decrease/(increase) in prepayments	131	(11)
(Increase)/decrease in other receivables	(32)	8
Decrease/(increase) in tax assets	1,092	(1,092)
(Decrease)/increase in creditors	(365)	2,061
Decrease in interest payable	(1,242)	(171)
Increase/(decrease) in employee benefits	15	(76)
Decrease in provision for income tax	(1,005)	(292)
Decrease in tax liabilities	-	(1,485)
Net cash inflow from operating activities	**65,094**	**3,491**

1. CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Subscription agreements $'000	Secured notes $'000	Total $'000
Opening balance 1 July 2020	162,550	203,047	365,597
Cash flows net of amortisation amount	13,000	(54,878)	(41,878)
Closing balance 30 June 2021	**175,550**	**148,169**	**323,719**
Opening balance 1 July 2019	163,550	198,649	362,199
Cash flows net of amortisation amount	(1,000)	4,398	3,398
Closing balance 30 June 2020	**162,550**	**203,047**	**365,597**

2. RECEIVABLES

	Loan receivables $'000	Lease receivables $'000	Other receivables $'000	Total $'000
2021				
Gross receivables	377,924	8,606	46	386,576
Deferred income	-	(320)	-	(320)
Provision for impairment	(1,673)	(208)	-	(1,881)
Total	**376,251**	**8,078**	**46**	**384,375**
2020				
Gross receivables	423,100	26,958	14	450,072
Deferred income	-	(1,507)	-	(1,507)
Provision for impairment	(1,984)	(322)	-	(2,306)
Total	**421,116**	**25,129**	**14**	**446,259**

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.

From October 2017, the Company made a decision to cease the provision of loans in respect of novated leases. Leases were 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.

2. RECEIVABLES (CONTINUED)

(a) Movement in provision for impairment

	2021 $'000	2020 $'000
Opening balance	2,306	1,320
Provision raised during the period	348	2,379
Bad debts written off during the period	(773)	(1,393)
Closing balance	**1,881**	**2,306**

(b) Accounting estimates, assumptions and judgements: Provision for impairment of loan and lease receivables

Loan and lease receivables are carried at amortised cost less a provision for impairment. The provision for impairment is measured based on an expected credit loss model as outlined in note 6(a)(i). In calculating the provision for impairment, the Company has made assumptions about the indicators of credit risk deterioration and write off rates. To mitigate the estimation uncertainty, expected credit losses are reviewed at each reporting period. In addition, all loans and leases are subject to regular management review.

OTHER ASSETS AND LIABILITIES

3. INTANGIBLE ASSETS

	2021 $'000	2020 $'000
Software		
Opening balance		
At cost	3,734	2,155
Accumulated amortisation and impairment	(2,111)	(2,072)
Net opening balance	1,623	83
Additions	-	1,579
Transfers	(1,550)	-
Amortisation	(13)	(39)
Closing balance	**60**	**1,623**
At cost	1,871	3,734
Accumulated amortisation and impairment	(1,811)	(2,111)
Closing balance	**60**	**1,623**

4. TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Trade creditors and accruals	1,306	1,243
Provision for remediation payments	-	3,899
	1,306	**5,142**

In 2020, in view of ASIC's Auto Lending Industry Review, the Company has undertaken a review of the loan book to identify affected customers. A comprehensive review has been completed by the Company and no additional provision is expected. All provision amounts in 2020 had been fully paid out.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

5. INTEREST BEARING LIABILITIES

	2021 $'000	2020 $'000
Secured		
Secured notes	148,168	203,046
Subscription agreement	175,892	162,767
	324,060	365,813
Accrued interest payable	1,015	2,257
	325,075	**368,070**
Maturity analysis		
Up to 1 month	25,192	20,212
Longer than 1 and not longer than 3 months	43,543	30,201
Longer than 3 months and not longer than 12 months	246,798	184,185
Longer than 1 year and not longer than 5 years	9,542	133,472
	325,075	**368,070**

(a) Secured notes

Under the prospectus issued on 8 November 2019, secured notes are issued at a fixed rate for periods between 6 months and 2 years (prior to 8 November 2019: at a fixed rate for periods between 6 months and 4 years). This prospectus was closed on 2 November 2020 and no new prospectus was issued. Existing secured notes can only be rolled over for 6 months upon maturity from 10 December 2020 and cannot be rolled over upon maturity from 1 July 2021. 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, semi-annual 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.

(b) Subscription agreement

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

On 25 February 2021, an amendment to the existing facility was established with National Australia Bank Limited ("NAB") to increase Tranche B to $400.0 million, and can be drawn for periods up to 12 calendar months. The Tranche B facility expires on 28 February 2022.

5. INTEREST BEARING LIABILITIES (CONTINUED)

(b) Subscription agreement (continued)

As at 30 June 2021, $176.0 million of the $400.0 million facility was drawn (2020: $163.0 million of the $350.0 million facility was drawn). This facility has been secured by secured notes. The individual drawdown amounts bear fixed interest rates with rollover dates and interest rates as shown below:

	Principal amount $	Interest rate (payable at rollover) % p.a.	Rollover date
June 2021	2,000,000	1.24	20 August 2021
	1,500,000	1.24	25 August 2021
	147,500,000	1.24	27 August 2021
	10,000,000	1.22	17 September 2021
	15,000,000	1.23	30 September 2021
June 2020	77,000,000	1.75	26 August 2020
	77,000,000	2.05	26 August 2020
	4,500,000	1.75	11 September 2020
	4,500,000	2.05	11 September 2020

6. RISK MANAGEMENT

(a) Financial Risk Management

The Company's activities expose it to credit risk, interest rate risk and liquidity risk. The Company's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Company. The Company uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, ageing analysis for credit risk and maturity and reinvestment analysis for liquidity risk. Risk management is carried out by the Company's management under policies approved by the Board of directors.

(i) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures from outstanding receivables. The Company's maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as indicated in the Balance Sheet. However, as cash and cash equivalents are held at financial institutions with a minimum external credit rating of 'A', they do not expose the Company to significant credit risk.

Credit risk is managed by using a prudent risk assessment process for all customers with the intention of seeking minimum exposure at all times and assessing the borrower's capacity to repay the loan. Credit risk is assessed similarly for each loan based on the borrower's creditworthiness, how the borrower has conducted and paid previous credit and the collateral being provided for the loan. Internal policies provide guidance on the acceptable mix of risk categories associated with the receivables portfolio.

Collateral held as security and other credit enhancements

Credit risk on loan and lease receivables is mitigated by obtaining security over the underlying asset. The majority of consumer loan receivables are secured with a motor vehicle and the security registered on the Personal Property Security Register. The vehicle can be repossessed if the counterparty is in default under the terms of agreement. Where there is 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.

For novated lease agreements and business loans (goods mortgage and commercial hire purchase agreements), the motor vehicle remains the property of the Company until all payments and the residual are repaid.

The following shows the extent to which mortgage over motor vehicles (for consumer loans) and ownership of property (for novated leases and business loans) mitigate credit risk:

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(i) Credit risk (continued)

Collateral held as security and other credit enhancements (continued)

	Maximum exposure* to credit risk $'000	Market value** of collateral held at reporting date $'000	Secured %
2021			
Loan receivables	377,925	341,701	90
Lease receivables	8,286	8,752	106
2020			
Loan receivables	423,098	365,988	87
Lease receivables	25,449	24,843	98

* Excludes provision for impairment.
** Value of motor vehicles as quoted in the Glass's Guide vehicle pricing guide.

All loans over 60 days in arrears are considered to be in default and are subject to the formal collection procedures which includes the issuance of an enforcement notice (under section 88 of the National Credit Code). Steps may be taken to repossess the collateral if the overdue payment is not made within 35 days of the notice. Repossessed collateral is sold at a public auction. The carrying amount of repossessed vehicles as at 30 June 2021, representing the foreclosed collateral obtained through the enforcement of security was $44,000 (2020: $15,500). In certain circumstances, a default record may be listed on a customer's personal credit file. There had been an increase in the allowance for hardship applications in light of the COVID-19 pandemic.

Some customers are also offered Credit Protection Insurance which covers loan repayments if customers are unable to meet payment commitments because of illness, injury or unemployment.

Concentration of credit risk in relation to loan and lease receivables

The Company minimises concentrations of credit risk in relation to loans receivable by diversification across a large number of customers. A prudent risk assessment process for all customers is used to manage the credit risk on loan receivables.

Concentration of risk on leases and commercial hire purchases is minimised by the spread of transactions with a large number of customers. Credit risk is minimised through prudent assessment policies and ensuring final balloon repayment amounts are in line with estimated asset values at the end of the repayment term.

The categories of credit risk exposure and the maximum exposure for each concentration are as follows:

	2021 %	2020 %	**2021 $'000**	2020 $'000
Category				
Loans secured by motor vehicles	98	94	377,801	422,863
Unsecured loans	-	-	124	235
Leases	2	6	8,286	25,449
Total receivables	**100**	**100**	**386,211**	**448,547**

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(i) Credit risk (continued)

Impairment of loan and lease receivables

The provision for impairment of the Company's loan and lease receivables is determined by an expected credit loss model ("ECL").

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 measure the ECL based on changes in the financial asset's underlying credit risk.

(a) Stage 1: 12-months 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. Interest income is determined with reference to the financial asset's effective interest rate ("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 lifetime 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 exposure's gross carrying value after the ECL provision.

The Company uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the Company's expected credit loss model is as follows:

Category	Company definition of category	Basis for recognition of expected credit loss provision
Stage 1	• Loans without any impairment indicators	• 12 month expected losses • Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Stage 2	• Hardship/variation • 30 days in arrears 3 times	• Lifetime expected losses
Stage 3	• Loans flagged 'At Risk' • 60 days in arrears once	• Lifetime expected losses

Historical evidence demonstrates that loans '30 days in arrears' are often due to administrative matters or a genuine oversight on the customer's behalf, and there is no correlation between a once off '30 days in arrears' and a significant increase in risk of a default occurring. The Company considers where a loan is '30 days in arrears' 3 times to be more representative of the credit risk deterioration.

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(i) Credit risk (continued)

Indicators for loans flagged 'At Risk' include delinquency, repossession of vehicles, bankruptcy or inability to locate customers or vehicles.

The Company considers its historical loss experience and adjusts this for current observable data. In addition, the Company monitors the macroeconomic conditions to ensure impacts are appropriately reflected when estimating the amount of an expected impairment loss. In light of COVID-19, an additional assessment of hardship applications with respect of receivables with balances more than 30 days past due was completed and formed part of the Management overlay outlined below.

Management overlay

At 30 June 2021 approximately 5.98% (2020: 4.27%) of the Company's customers have requested a payment holiday. In the current ECL model, loan accounts with a payment holiday are moved from Stage 1 to Stage 2 despite no arrears trigger being present. Management assessed that overall COVID-19 risk is lower than last year and there is a decrease in the estimated probability of default for these loan accounts, thus reducing the management overlay provision.

The full impact of the COVID-19 pandemic has not yet materialised over the past 12 months primarily as a result of the national and local government stimulus and measures taken to support the economy. The modelled performance of these receivables continues to evolve as the situation unfolds with the removal of the stimulus and uncertain paths to a fully vaccinated population and further potential lockdowns and restrictions.

Modification of financial assets

The Company sometimes modifies the terms of loans and leases provided to customers due to payment holidays. Restructuring policies and practices are based on indicators or criteria which, based on management's judgement, indicate that payment will most likely continue. These policies are kept under continuous review.

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(i) Credit risk (continued)

Credit quality

The level of risk associated with a loan or lease receivable is indicated by its credit quality which is evaluated using the Equifax score (formerly known as VedaScore). The following table represents the credit quality of loan and lease receivables:

	Stage 1 - 12 month expected credit loss			Stage 2 - Lifetime expected credit loss	Stage 3 - Lifetime expected credit loss	Finance lease	Total
	High Grade[1] $'000	**Medium Grade[2] $'000**	**Low Grade[3] $'000**	**$'000**	**$'000**	**$'000**	**$'000**
30 June 2021							
Loan receivables	286,461	57,956	13,695	14,051	5,761	-	377,924
Lease receivables	-	-	-	-	-	8,606	8,606
	286,461	**57,956**	**13,695**	**14,051**	**5,761**	**8,606**	**386,530**
30 June 2020							
Loan receivables	290,931	79,817	24,108	20,941	7,303	-	423,100
Lease receivables	-	-	-	-	-	26,958	26,958
	290,931	**79,817**	**24,108**	**20,941**	**7,303**	**26,958**	**450,058**

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(i) Credit risk (continued)

Credit quality (continued)

The provisions for impairment by category are as follows:

	Stage 1 - 12 month expected credit loss			Management overlay	Stage 2 - Lifetime expected credit loss	Stage 3 - Lifetime expected credit loss	Finance lease	Total
	High Grade[1] $'000	Medium Grade[2] $'000	Low Grade[3] $'000	$'000	$'000	$'000	$'000	$'000
30 June 2021								
Loan receivables	216	101	50	500	105	701	-	1,673
Lease receivables	-	-	-	68	-	-	140	208
	216	**101**	**50**	**568**	**105**	**701**	**140**	**1,881**
30 June 2020								
Loan receivables	212	123	75	793	134	647	-	1,984
Lease receivables	-	-	-	117	-	-	205	322
	212	**123**	**75**	**910**	**134**	**647**	**205**	**2,306**

[1]Equifax score above 500
[2]Equifax score between 0 to 500
[3]Equifax score below zero

(ii) Interest rate risk

Interest rate risk is the risk to the Company's earnings and capital arising from changes in market interest rates. The Company's interest rate risk exposure results primarily from repricing risk or differences in the repricing characteristics of its financial assets and liabilities.

The Company's financial assets consist primarily of fixed rate loan receivables with maturities ranging from 12 to 84 months and fixed rate lease receivables with maturities ranging from 6 to 60 months.

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(ii) Interest rate risk (continued)

The financial liabilities funding these receivables consist primarily of fixed rate secured notes with maturities ranging from 6 to 48 months and fixed rate borrowings on the subscription agreement with maturities up to 180 days that renew automatically at the option of the Company during the term of the subscription agreement. Secured notes issued under the new prospectus have maturities ranging from 6 to 24 months. Existing secured notes cannot be rolled over upon maturity. Due to the mismatch in the maturities of its receivables and the financial liabilities funding these receivables, the Company is exposed to re-pricing risk. The impact on equity and pre-tax profit of reasonable possible changes in the interest rate over the next 12 months using between -/+ 0 and 50 basis points (2020: between -/+ 0 and 50 basis points), with all other variables held constant is +/- $493,000 (2020: +/- $241,000).

(iii) Liquidity risk

Liquidity risk is the risk that the financial obligations of the Company cannot be met as and when they fall due without incurring significant costs. Liquidity risk is managed by continuous monitoring of forecast and actual cash flows. The Company does not have a policy of directly matching secured note and loan maturities. The Company ensures that it has sufficient cash by maintaining access to a line of credit with NAB.

Financing arrangements

The company had access to the following undrawn borrowing facilities at the reporting date:

	2021 **$'000**	2020 $'000
Floating rate		
Expiring within 1 year (bank overdraft)	1,000	1,000
Expiring within 1 year (subscription agreement)	224,000	93,500
Expiring within 2 - 5 years (subscription agreement)	-	93,500
	225,000	188,000
Fixed rate		
Ongoing (inter-company loan facility)	20,000	20,000
	245,000	**208,000**

6. RISK MANAGEMENT (CONTINUED)

(a) Financial Risk Management (continued)

(iii) Liquidity risk (continued)

Financing arrangements (continued)

Following is a maturity analysis of the Company's financial liabilities:

		Floating Interest Rate	Fixed Interest Maturing In:			Non-Interest Bearing		Total Contractual Cash Flows
2021	**Interest Rate[1] %**	**At Call**	**1 Year or less**	**Over 1 to 5 Years**	**More than 5 Years**	**Up to 1 month**	**1 Year or less**	
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial liabilities								
Payables and other liabilities	n/a	-	-	-	-	1,306	-	1,306
Accrued interest	n/a	-	-	-	-	1,015	-	1,015
Subscription agreement[2]	1.41	-	175,892	-	-	-	-	175,892
Secured notes[3,4]	1.24	-	138,626	9,542	-	-	-	148,168
		-	**314,518**	**9,542**	**-**	**2,321**	**-**	**326,381**
2020								
Financial liabilities								
Payables and other liabilities	n/a	-	-	-	-	5,142	-	5,142
Accrued interest	n/a	-	-	-	-	2,257	-	2,257
Subscription agreement[2]	1.90	-	81,413	81,354	-	-	-	162,767
Secured notes[3,4]	2.50	-	150,930	52,116	-	-	-	203,046
		-	**232,343**	**133,470**	**-**	**7,399**	**-**	**373,212**

[1] Year end average effective interest rate
[2] Refer to note 5(b) for details relating to the subscription agreement
[3] Secured notes exclude capitalised borrowing costs
[4] Historical trends indicate that on average, 78% of secured notes (2020: 87%) are reinvested.

(b) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to comply with externally imposed capital requirements.

6. RISK MANAGEMENT (CONTINUED)

(b) Capital risk management (continued)

The Trust Deed imposes borrowing limitations on the Company as discussed in note 5(a). Detailed budgeting and forecasting is performed to ensure the Company is in compliance with the Trust Deed requirements. As at 30 June 2021, the secured liabilities to tangible assets ratio was 81.03% (limit 85%) and external liabilities to tangible assets ratio was 82.80% (limit 93.75%). As at 30 June 2020, the secured liabilities to tangible assets ratio was 80.62% and external liabilities to tangible assets ratio was 83.10%. The Company has a commitment from Royal Automobile Club of Victoria (RACV) Limited (“RACV Ltd”) for an increase in its capital base by $10 million should the secured liabilities to tangible assets ratio reach 83.5%.

Under the NAB subscription agreement (refer note 5(b)) the Company has financial undertakings to ensure that its gearing ratio is less than or equal to 0.85 times. This ratio is calculated as interest bearing liabilities divided by total tangible assets. The gearing ratio as at 30 June 2021 was 0.81 times (2020: 0.81 times). The Company was in compliance with its capital requirements throughout the whole financial year.

TAXATION

7. INCOME TAX EXPENSE

	2021 $'000	2020 $'000
Current tax	2,563	3,568
Deferred tax	(36)	(2,576)
Derecognition of deferred tax*	1,405	-
Under/(over) provision for current tax from previous year	277	(33)
Over provision for deferred tax from previous year	(277)	-
Income tax expense	**3,932**	**959**

(a) Reconciliation of prima facie income tax

The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:

	2021 $'000	2020 $'000
Profit before income tax expense	8,378	3,305
The prima facie tax on operating profit before income tax @ 30.0%	2,513	992
Over provision for current tax from previous year	-	(33)
Sundry items	14	-
Derecognition of deferred tax*	1,405	-
Income tax expense attributable to operating profit	**3,932**	**959**

(b) Tax consolidation

RACV Ltd and its wholly owned subsidiaries, including R.A.C.V. Finance Limited are parties to a tax sharing agreement and a tax funding agreement. The tax sharing agreement, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity RACV Ltd.

Under the tax funding agreement the wholly owned subsidiaries fully compensate RACV Ltd for any current tax payable assumed and are compensated by RACV Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to RACV Ltd under the tax consolidation legislation. The funding amounts will be determined by reference to the amounts recognised in the wholly owned subsidiaries’ financial statements. The funding amounts are recognised within the balance of amounts due to the parent and related entities.

7. INCOME TAX EXPENSE (CONTINUED)

(b) Tax consolidation (continued)

*The Company recognises deferred tax assets relating to carried forward tax to the extent it is probable that future tax liabilities will be available against which the deferred tax assets may be utilised or there are taxable temporary differences (deferred tax liabilities) relating to the same taxation authority. The Group assessed that there were insufficient future tax liabilities and taxable temporary differences as at 30 June 2021 and derecognised $1.4 million of both prior year and current year deferred tax assets (2020: $1.4 miliion carried forward deferred tax assets recognised).

8. DEFERRED TAX ASSETS

	2021 $'000	2020 $'000
Deferred tax assets due to temporary differences are attributable to:		
Employee entitlements	267	261
Accrued income and prepayment	-	(47)
Finance leases	(344)	(1,148)
Loan receivables	189	31
Intangible assets	717	128
Provision for impairment	564	692
Provisions and accruals	36	1,195
Other items	(24)	(20)
Derecognition of deferred tax	(1,405)	-
Net deferred tax assets	**-**	**1,092**

(a) Movements in temporary differences during the year

Opening balance	1,092	(1,485)
Under provision for deferred tax from prior year	277	-
Derecognition of deferred tax	(1,405)	-
Recognised in Statement of Comprehensive Income	36	2,577
Closing balance	**-**	**1,092**

FURTHER DETAILS

9. RELATED PARTIES

(a) Key management personnel of R.A.C.V. Finance Limited

Key management personnel are all the directors of the Company and executives having authority and responsibility for planning, directing and controlling the activities of the Company. During the year, all directors and most of the executives were employed by other entities within the wholly owned Group and receive compensation for services to these entities. As such, no compensation is paid to these executives and directors for managing the affairs of the Company.

The key management personnel closely involve themselves in the critical areas of the Company's activities by attending board meetings and committees in order to discharge their responsibilities to the Company and to the wholly owned Group.

9. RELATED PARTIES (CONTINUED)

(b) Key management personnel compensation

Compensation details of the key management personnel employed by R.A.C.V. Finance Limited are set out below:

	2021 **$**	2020 $
Short-term benefits	288,823	261,545
Post-employment benefits	21,694	21,003
Long-term benefits	24,173	15,388
	334,690	**297,936**

(c) Transactions with the key management personnel of R.A.C.V. Finance Limited and of the wholly owned Group

The key management personnel of the Company have normal business transactions with various entities within the wholly owned Group including the use of various facilities available to them as members and reimbursement of travelling expenses. These transactions include contracts of insurance, secured note investments, finance leases and consumer and business loans with the Company and minor sales of products and services. All these transactions are conducted on a commercial basis on conditions no more beneficial than those available to members or employees.

(d) The following related party transactions occurred during the financial year

(i) Transactions with RACV Ltd

Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with RACV Ltd:

	2021 **$**	2020 $
Fee paid for distribution, marketing and corporate services	465,722	735,824
Fee paid for IT, telecommunication and administrative services	650,005	1,120,434
Property rental fee paid	51,827	185,755
	1,167,554	**2,042,013**

(ii) Outstanding balances within the RACV wholly owned Group

Aggregate amounts receivable from and payable to each class of related parties within the wholly owned Group at reporting date:

Payables		
RACV Ltd *	3,894,283	2,977,598

* At reporting date, included within the RACV Ltd balance is an amount of $2,562,988 (2020: $3,568,065) representing the net current taxation balance payable to the head entity in the tax consolidated group.

9. RELATED PARTIES (CONTINUED)

(d) The following related party transactions occurred during the financial year (continued)

(iii) Transactions with other related parties

Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with each class of other related parties:

	2021 **$'000**	2020 $'000
Superannuation contributions		
RACV Superannuation Fund*	201,752	233,117

* Upon joining the Company, new employees are able to choose whether to join the defined contribution section of the RACV Superannuation Fund (Plan) or an alternative fund. All members of the Plan are entitled to benefits on resignation, retirement, ill-health, disability or death.

10. AUDITOR'S REMUNERATION

During the year, the following fees were paid or payable to the auditor:

	2021 **$**	2020 $
PricewaterhouseCoopers		
Audit of financial reports	199,722	204,208
Other services	55,985	42,796
Total remuneration	**255,707**	**247,004**

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Company are important. These assignments are principally audit and other services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for all major consulting projects.

11. SIGNIFICANT ACCOUNTING POLICIES

R.A.C.V. Finance Limited ("the Company") is a wholly owned subsidiary of RACV Ltd, which is the ultimate parent entity.

The principal accounting policies adopted in the preparation of the financial report of the Company are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared on a liquidity basis (assets and liabilities are presented in order of liquidity instead of current and non-current classification) and in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared on a historical cost basis, except where otherwise stated.

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional and presentation currency of the Company.

Accounting estimates, assumptions and judgements

In preparing these Financial Statements management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in the Provision for impairment of loan and lease receivables - refer note 2.

Reclassification of prior year amounts

Where material, comparative amounts have been reclassified to ensure consistency with the current reporting period.

New and amended standards adopted by the Company

The Company has not applied any standards and amendments that are mandatory for the first time for the financial year beginning 1 July 2020.

Early adoption of standards

The Company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2020.

11. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Revenue recognition

Interest on loans and leases

Interest is recognised as the interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument.

Non-interest revenue

Revenue is recognised when control of services is transferred to the customer and 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 services is transferred to the customer.

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 the performance obligation is satisfied.

(c) Interest expense and finance expense

Interest expense

Interest expense is recognised using the effective interest method. Interest expense includes interest on secured notes and the subscription agreement. Other transaction costs and commitment fees incurred in connection with the origination of the financial liabilities are deferred and recognised as an adjustment to the effective interest rate.

Finance expense

Finance expense is recognised in the period in which they are incurred. Finance expense includes commission, prospectus costs and bank charges.

Bad debt recoveries

Bad debts recovered are recognised as an adjustment against bad debt expense when the funds are received.

(d) Income tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income or loss based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting or taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the liability is settled.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances are recognised in the profit and loss, except to the extent that relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

11. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income tax (continued)

Tax consolidation

RACV Ltd and its wholly owned and controlled subsidiaries, including R.A.C.V. Finance Limited, have implemented the tax consolidation legislation. The head entity, RACV Ltd, and the controlled subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. Each entity in the tax consolidated group measures these tax amounts using the group allocation approach.

Under the group allocation approach, the tax effect of intercompany transactions is recognised within each wholly owned and controlled subsidiary.

Assets or liabilities arising under the tax funding agreement with RACV are recognised as amounts due to/from the parent and related entities. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to or distribution from wholly owned tax consolidated entities (refer note 8).

(e) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition.

(f) Impairment of assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(g) Financial assets

Cash and cash equivalents

Cash and cash equivalents include cash at bank. Bank overdrafts, when utilised, are shown within interest bearing liabilities on the Balance Sheet. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and equivalents as defined above, net of outstanding bank overdrafts. Cash is stated at its nominal amount. Interest is recognised when earned.

Loan receivables

Loans are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. The initial direct transaction costs and fee revenue are included in the initial measurement of the loan. Collectability of loans is reviewed on an ongoing basis. The carrying amount of the loans is reduced by the provision for impairment and the amount of the impairment loss is recognised in the statement of comprehensive income as 'impairment losses on loans and leases'. When a loan is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against the statement of comprehensive income. A provision for impairment is established based on an expected credit loss model as outlined in note 6(a)(i). The loan interest is calculated on the daily balance outstanding and is charged in arrears to a customer's account in accordance with the terms of the loan agreement. The carrying amount of loan receivables approximates their fair value.

(h) Other assets

Receivables - related entities

Receivables from related entities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The nominal value of receivables is assumed to approximate their fair value. Intercompany receivables are generally settled within 12 months.

11. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets

Software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service. Software has a finite useful life and is stated at historical cost less accumulated amortisation. Amortisation is calculated on a straight line basis over periods generally ranging from 2 to 5 years. Where carrying values exceed recoverable amounts, assets are written down to their recoverable amount (note 11(f)).

Costs incurred in configuring or customising SaaS arrangements can only be recognised as intangible assets if the implementation activities create an intangible asset that the Company controls and the intangible asset meets the recognition criteria. Those costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the SaaS arrangements to significantly customise the cloud-based software for the group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement.

(j) Financial liabilities

Trade creditors and accruals

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are normally settled within 30 days. The carrying amount of payables and other liabilities approximates their fair value due to their short term nature.

Payables - related entities

Payables from related entities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The nominal value of payables is assumed to approximate their fair value. Intercompany payables are generally settled within 12 months.

Secured notes

Secured notes are recognised initially at fair value and subsequently measured at amortised cost. Details of the terms and conditions are set out in note 5(a). The carrying amount of interest bearing liabilities approximates their fair value.

Subscription agreement

The borrowings on the subscription agreement are recognised initially at fair value and subsequently measured at amortised cost. Details of the terms and conditions are set out in note 5(b).

(k) Provisions

A provision is recognised where there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, the timing or amount of which is uncertain and the amount has been reliably estimated.

(l) Employee benefits

Wages and salaries and sick leave

Liabilities for wages and salaries and accumulating sick leave that are expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date.

11. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (continued)

Long service leave and annual leave

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised and included in the employee entitlement liabilities, and are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using corporate bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Incentive plans

A liability for incentive plans is recognised and included in the employee entitlement liabilities when there is no realistic alternative but to settle the liability and at least one of the following conditions are met:

(a) there are formal terms in the plan for determining the amount of the benefit;

(b) the amounts to be paid are determined before the time of completion of the financial report; or

(c) past practice gives clear evidence of the amount of the obligation.

Liabilities for incentive plans are measured at the amounts expected to be paid when they are settled. Amounts payable under long term incentive plans are discounted using corporate bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Superannuation benefits

The RACV Superannuation Fund (Plan) exists to provide benefits to employees of RACV Ltd and its subsidiaries including R.A.C.V. Finance Limited, on resignation, retirement, disability or death. The employer operates one fund but with two superannuation sections, a defined contribution section and a defined benefit section.

The Company does not recognise a plan asset/liability or defined benefit costs in its financial statements. The superannuation plan asset/liability and defined benefit costs are recognised in the financial statements of RACV Ltd, which is the principal employer of the Plan.

All contributions made to the Plan by the Company are charged against profits when due. Contributions to the defined contribution section of the Plan are made in accordance with the Superannuation Guarantee Charge (SGC) legislation and the rules of the Plan.

Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised at the earlier of the following dates:

(a) when the Company can no longer withdraw the offer of those benefits; and

(b) when the Company recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities* and *Contingent Assets* and involves the payment of terminations benefits.

Other benefits

All permanent employees are entitled to free Roadside Care upon completion of a three-month qualifying period of employment. All employees are entitled to discounted insurance and those with more than one year's service with RACV are entitled to free membership of the RACV Club. Liabilities for other benefits are measured at the amounts expected to be paid when they are settled.

11. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Balance Sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(n) Rounding of amounts

The Company is of a kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the rounding off of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars except where otherwise indicated.

(o) New accounting standards and interpretations

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

UNRECOGNISED ITEMS AND UNCERTAIN EVENTS

12. COMMITMENTS AND CONTINGENCIES

	2021 $'000	2020 $'000
Credit related commitments		
Customer loans and leases approved but undrawn at reporting date	14,232	3,090

13. SUBSEQUENT EVENTS

Since the end of the financial year, the directors have recommended an unfranked dividend of $4.0 million to be paid out of retained earnings at 30 June 2021.

The Royal Automobile Club of Victoria (RACV) Ltd and the Company are parties to a letter of Financial Support under which the directors of RACV Ltd have undertaken to provide sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. This undertaking is provided for a minimum period of twelve months from 1 September 2021.

In the opinion of the directors, there are no other matters or circumstances which have arisen between 30 June 2021 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.

DIRECTORS’ DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 30 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 30 June 2021 and of its performance for the financial 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.

Note 11(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Board

Mr G. Robinson
Director

Melbourne
1 September 2021

Independent auditor's report

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

Our opinion

In our opinion:

The accompanying financial report of R.A.C.V. Finance Limited (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 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- 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 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 & 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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
1 September 2021