Motoring Club Finance Limited

ABN 56 167 246 899

Annual report
for the year ended 30 June 2020

Motoring Club Finance Limited ABN 56 167 246 899
Annual report - 30 June 2020

Contents

	Page
Directors' report	1
Corporate governance statement	4
Financial report	6
Directors' declaration	36
Independent auditor's report to the members	38

Directors' report

Your Directors present their report on the company for the year ended 30 June 2020.

Directors

The following persons held office as Directors of Motoring Club Finance Limited during the financial period and up to the date of this report unless otherwise stated:

D Parr
A J Pickworth
G B Mather
T B Griffiths
T Page (Company Secretary)

Qualifications, experience and special responsibilities

D Parr (MA Marketing, Grad. Dip. Marketing) joined the Board of MCFL on 1 December 2018 and is a member of the Audit Committee. D Parr is currently the General Manager Product, Marketing & Distribution at the Royal Automobile Association of South Australia Inc (RAA) and has over 20 years' experience in sales, marketing and business development.

A J Pickworth (BA, GDip Business, AICD, INSEAD) joined the Board of MCFL in 2013 and is a member of the Audit Committee. A J Pickworth is currently the Executive General Manager Brand and Tourism at the Royal Automobile Club of Western Australia (RACWA) and holds Directorship at Margaret River Busselton Tourism Association. He has an extensive management experience and expertise in financial services principally in retail and business banking, motoring, sales and service distribution, IT operations, HR and group marketing.

G B Mather (B Bus, FCPA, FAICD, FLWA) joined the Board of MCFL in 2013 and is the Group Chief Financial Officer of RACWA. He has a strong background in financial services, motoring, insurance, travel and tourism, retirement and aged care industries.

T B Griffiths (BEc, MBA) was appointed a Director of MCFL in 2015 and is a member of the Audit and the Assets & Liabilities Committees. T B Griffiths is the Group Chief Finance Membership & Brand Officer of RAA and from 2008 to 2016 was RAA's General Manager of Sales and Marketing. He has previously held senior leadership roles with Telstra and PwC.

T R Page (LLB, BHSc, GDLP) was appointed as Company Secretary of MCFL in March 2018. T Page is the General Counsel and Company Secretary of RAA and a member of the Takeovers Panel. Prior to her appointments at RAA and MCFL, she was a Partner at law firm Thomson Geer.

Principal activities

Motoring Club Finance Limited (MCFL) is a joint venture between the Royal Automobile Association of South Australia Inc. (RAA) and RACWA Holdings Pty Ltd. The company provides financial services to members of RAA and the public through a distribution network in Australia. The company has on issue a fixed term investment product.

On 23 December 2016, following a strategic review, the Motoring Club Finance Limited Board decided to cease offering new investment notes and reinvestments from 7 January 2017. A supplementary prospectus was lodged with the Australian Securities and Investments Commission on 23 December 2016 and investment note holders were informed via letter sent on 29 December 2016.

On 14 March 2017, the Motoring Club Finance Limited Board approved that Motoring Club Finance Limited cease offering new loans effective 1 April 2017 and placed Motoring Club Finance Limited in run-off.

Review of operations

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the economy, but the scale and duration of these developments remain uncertain.

Market and economic conditions for the car loan and property development finance markets were stable during most of the year, with the company's focus to maintain liquidity and a conservative credit risk profile.

The company has experienced an increase in applications for financial hardship. The allowance for expected credit losses for the year was $170,379 (2019: $90,846), increasing from the previous period.

The (loss)/profit from ordinary activities after income tax amounted to ($14,782) (2019: $119,997).

Revenue and fee income totalled $497,956 (2019: $901,060).

Dividends

No dividends were paid during the financial year.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the company during the year.

Matters subsequent to the end of the financial year

The financial statements have been prepared based upon conditions existing at 30 June 2020 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As of the date of this report, minimal adjustments have been made to the financial statements as at 30 June 2020 due to the impact of COVID-19.

Likely developments and expected results of operations

It is not possible to estimate the impact of the outbreak's near-term and longer effects or Governments' varying efforts to combat the outbreak and support businesses. The company could be impacted by future outbreaks and will continue to operate in accordance with government mandates. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact of this outbreak on the company at this time.

Environmental regulation

The company is not affected by any significant environmental regulation in respect of its operations.

Directors' and executives' emoluments

During or since the financial year no Director of the company has received, or become entitled to receive, a benefit other than a benefit included in the accounts, by reason of a contract entered into by the company or by a body corporate that was related to the company with:

- a Director, or
- a firm of which a Director is a member, or
- a company in which a Director has substantial financial interest.

Insurance of officers

The company indemnifies the Directors and executive officers for liability. The company has obtained insurance cover in respect of the above indemnity. The contract prohibits disclosure of the nature of the liabilities and the amount of the premium.

Indemnity of auditors

To the extent permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Board of Directors		Audit Committee	
	Held*	Attended	Held*	Attended
D Parr	3	2	2	1
T B Griffiths	3	3	2	2
A J Pickworth	3	3	2	2
G B Mather	3	3	2	2

* Denotes the number of meetings at which the Director was eligible to attend
** The Assets & Liabilities Committee received and considered regular reports during the financial year but did formally meet

Corporate governance

The Directors of Motoring Club Finance Limited support and adhere to generally accepted principles of good corporate governance. The company's corporate governance statement is contained in the Corporate Governance section of this annual report.

Auditor's independence declaration

Ernst & Young Australia, our auditors, have provided a written independence declaration to the Directors in relation to their audit of the financial report for the year ended 30 June 2020. The independence declaration can be found on page 37 and forms part of this report.

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

T B Griffiths
Director

Adelaide, S.A.
13 August 2020

Corporate governance statement

The Motoring Club Finance Limited (MCFL) Board of Directors ("Board") is responsible for the entity's corporate governance. The Board guides and monitors the business and affairs of Motoring Club Finance Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The MCFL Corporate Governance Guide outlines key aspects and considerations of the governance of Motoring Club Finance Limited.

Board composition

Board composition is determined in accordance with the following principles and guidelines per the Shareholders' Agreement:

- Each shareholder has the right to appoint up to two Directors;
- The Board elects the Chairman;
- A director is entitled to appoint an alternate to attend and vote in place of the appointor;
- The Board should comprise Directors with an appropriate range of qualifications and expertise.

Board meetings

The Board meets twice annually and follows formal meeting procedures to ensure all Directors are made aware of, and have available, all necessary information to participate in an informed discussion of all agenda items.

Board members

The Directors in office at the date of this statement are:

Name	Position	Term
A J Pickworth	Director	6.5 years
G B Mather	Director	6.5 years
T Griffiths	Director	4.75 years
D Parr	Director	1.58 years

Board responsibilities

As the Board acts on behalf of and is accountable to its shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risks and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

Responsibility for the operation and administration of the entity is assigned to Contract Managers appointed by each shareholder and governed by Services Agreements. The shareholders ensure that the personnel providing services to the entity under the respective Service Agreements are appropriately qualified and experienced to discharge their responsibilities and have in place procedures to assess the performance of those personnel.

The Board is responsible for ensuring that MCFL's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure that this is achieved, including the establishment of the committees detailed below:

- Board approval of a strategic plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk. The strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- Implementation of operating plans and budgets by management and Board monitoring of progress against budget. This includes the establishment and monitoring of key performance indicators, both financial and non-financial for all significant business processes; and
- Establishment of committees to report on operational risks and material key performance indicators.

Board responsibilities (continued)

The following committees have been established by the Board:

Audit Committee

The Board has an Audit Committee which operates under a charter approved by the Board. The Board's responsibility is to ensure that an effective risk and internal control framework exists within the entity. This includes internal controls to deal with both effectiveness and efficiency of significant business processes. These significant business processes include the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as benchmarking of operational key performance indicators.

The Audit Committee provides the Board with assurance regarding the integrity of financial reporting.

The Audit and Risk Committee is also responsible for:

- Overseeing and monitoring the internal audit function and action taken by management to address findings;
- Managing the engagement of the external auditor, including reviewing the adequacy of the scope and quality of the annual statutory audit; and
- Assisting the Board with regards to oversight of the entity's risk management and compliance frameworks.

The members of the Audit Committee during the year were:

A J Pickworth	Director
G B Mather	Chairman, Director
T Griffiths	Director
D Parr	Director

Assets & Liabilities Committee

The Assets & Liabilities Committee (ALCO) is responsible for overseeing the overall performance of Assets and Liabilities to ensure MCFL is meeting its financial obligations. The ALCO reports on key financial key performance indicators (KPIs) to the Board - ensuring all agreed KPIs are being achieved as agreed in the annual business plan. The ALCO also has a number of sub-committees that monitor operational functions, including balance sheet management, pricing and credit management.

The ALCO received and considered regular reports during the financial year but did not formally meet.

The members of the ALCO during the year were:

G Mather	Chairman, Director
T Griffiths	Director
W Scott	MCFL Chief Executive Officer

Motoring Club Finance Limited ABN 56 167 246 899
Annual report - 30 June 2020

Contents

	Page
Financial report	
Income statement	7
Statement of comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12
Directors' declaration	36
Independent auditor's report to the members	38

This financial report covers Motoring Club Finance Limited as an individual entity. The financial report is presented in the Australian currency.

Motoring Club Finance Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Motoring Club Finance Limited
101 Richmond Road
Mile End South S.A. 5031

A description of the nature of the company's operations and its principal activities is included in the Directors' report on page 2, which is not part of this financial report.

The financial report was authorised for issue in accordance with a resolution of the Directors on 13 August 2020 . The Directors have the power to amend and reissue the financial report.

Motoring Club Finance Limited
Income statement
For the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue			
Interest revenue		**470,183**	878,576
Interest expense		**(75,167)**	(242,554)
Net interest income		**395,016**	636,022
Other income	4	**27,773**	22,484
Expenses			
Management fees		**(133,507)**	(153,371)
Other operating expenses		**(210,645)**	(119,277)
Credit loss expense		**(32,387)**	(57,140)
Borrowing costs		**(33,244)**	(34,717)
Profit before income tax		**13,006**	294,001
Income tax expense	5	**(27,788)**	(174,004)
(Loss)/profit from operations		**(14,782)**	119,997
(Loss)/profit for the year		**(14,782)**	119,997

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

Motoring Club Finance Limited
Statement of comprehensive income
For the year ended 30 June 2020

	Notes	**2020** $	2019 $
(Loss)/profit for the year		**(14,782)**	119,997
Total comprehensive (loss)/profit for the year is attributable to:			
Owners of Motoring Club Finance Limited		**(14,782)**	119,997
		(14,782)	119,997

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

Motoring Club Finance Limited
Balance sheet
As at 30 June 2020

	Notes	2020 $	2019 $
ASSETS			
Cash and cash equivalents	7	**2,207,779**	2,496,697
Trade and other receivables	8	**2**	2
Loans and advances	10	**4,336,318**	8,621,890
Deferred tax assets	9	**-**	27,788
Prepayments	11	**45,748**	11,064
Total assets		**6,589,847**	11,157,441
LIABILITIES			
Trade and other payables	12	**74,031**	83,115
Interest bearing loans and borrowings	13	**412,154**	4,955,882
Total liabilities		**486,185**	5,038,997
Net assets		**6,103,662**	6,118,444
EQUITY			
Contributed equity	14	**7,000,002**	7,000,002
Accumulated losses	15	**(896,340)**	(881,558)
Total equity		**6,103,662**	6,118,444

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

Motoring Club Finance Limited
Statement of changes in equity
For the year ended 30 June 2020

	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2018	7,000,002	(985,470)	6,014,532
Profit for the year	-	119,997	119,997
Adoption of new accounting standard	-	(16,085)	(16,085)
	-	103,912	103,912
Balance at 30 June 2019	**7,000,002**	**(881,558)**	**6,118,444**
Balance at 1 July 2019	7,000,002	(881,558)	6,118,444
Loss for the year	-	(14,782)	(14,782)
Balance at 30 June 2020	**7,000,002**	**(896,340)**	**6,103,662**

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

Motoring Club Finance Limited
Statement of cash flows
For the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Interest and other operating income from customers		**471,592**	829,794
Interest received from deposits		**11,424**	38,595
Interest payments		**(82,271)**	(393,553)
Recoveries on loans previously written off		**14,458**	1,509
Cash payments to suppliers		**(341,301)**	(312,116)
Customer loan repayments received		**4,180,909**	5,466,644
Repayment of borrowings		**(543,729)**	(1,304,386)
Net cash inflow from operating activities	21	**3,711,082**	4,326,487
Cash flows from financing activities			
Repayment of shareholders' loans		**(4,000,000)**	(5,000,000)
Net cash outflow from financing activities		**(4,000,000)**	(5,000,000)
Net (decrease) in cash and cash equivalents		**(288,918)**	(673,513)
Cash and cash equivalents at the beginning of the financial year		**2,496,697**	3,170,210
Cash and cash equivalents at end of year	7	**2,207,779**	2,496,697

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

Contents of the notes to the financial statements

		Page
1	Summary of significant accounting policies	13
2	Financial risk management	20
3	Critical accounting estimates and judgements	24
4	Other income	24
5	Income tax expense	24
6	Fair values and interest rate risk	25
7	Assets - Cash and cash equivalents	26
8	Assets - Trade and other receivables	26
9	Assets - Deferred tax assets	27
10	Assets - Loans and Advances	27
11	Assets - Prepayments	29
12	Liabilities - Trade and other payables	30
13	Liabilities - Interest bearing loans and borrowings	30
14	Contributed equity	32
15	Accumulated losses	33
16	Remuneration of auditors	33
17	Contingencies	34
18	Commitments	34
19	Related party transactions	34
20	Events occurring after the reporting period	35
21	Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities	35

1 Summary of significant accounting policies

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

(a) General information

Motoring Club Finance Limited provides financial services to members of The Royal Automobile Association of South Australia Inc. and the public through a distribution network in Australia.

Motoring Club Finance Limited is a joint venture between the Royal Automobile Association of South Australia Inc. and RACWA Holdings Pty Ltd.

The registered office of Motoring Club Finance Limited is located at:

101 Richmond Road
Mile End South S.A. 5031

(b) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Motoring Club Finance Limited is a for-profit entity for the purpose of preparing the financial report.

(i) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the company

In the current year, the company has adopted the below amendment to standards issued by the AASB that are relevant to its operations and effective for the current annual reporting period:

- *AASB 2018-2 Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement*
- *AASB 2017-6 Amendments to Australian Accounting Standards - Prepayment Features with Negative Compensation*
- *AASB 2018-1 Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle*
  - Previously held Interests in a joint operation
  - Income tax consequences of payments on financial instruments classified as equity
  - Borrowing costs eligible for capitalisation
- *AASB Interpretation 23 Uncertainty over Income Tax Treatments*

The adoption of the above amended standards and interpretation has not had any significant impact on the financial results or position of the company. Disclosures have been changed where required.

(iii) Historical cost convention

This financial report has been prepared under the historical cost convention.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(iv) Critical accounting estimates

The preparation of the financial report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial report, are disclosed in note 3.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Fees and commission income

Fees and commission income is brought to account on an accruals basis. Non refundable front end fees are recognised as income when the loan is disbursed. If material, front end fees which are risk or yield related are deferred and amortised to interest income over the life of the loan using the effective interest method. Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest over the life of the loan using the effective interest rate method. Fees received for commitments which are not expected to result in a loan are included in fees and commissions and amortised on a straight line basis over the commitment period. Where fees are received on an ongoing basis and represent the recoupment of the costs of maintaining and administering existing loans, these fees are taken to income on an accruals basis.

(ii) Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset. Any yield adjusting fee income is recognised within loans and advances and is earned in the income statement as interest income over the expected term of the loan, using the effective interest method.

Loan origination fees and costs are amortised over the expected life of the loan. The company has adopted a loan pool basis amortisation with an expected life of loan rather than an effective interest rate approach applied individually to each loan.

(d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of goodwill or of assets and liabilities if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

1 Summary of significant accounting policies (continued)

(d) Income tax (continued)

Deferred tax liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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 either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(e) Impairment of non financial assets other than goodwill

Assets 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 inflows which are largely independent of the cash inflows from other assets or group of assets (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Cash and cash equivalents

For balance sheet and the statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Trade and other receivables

Trade receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.

Impairment of trade and other receivables

For trade and other receivables at amortised cost, the company applies the low credit risk simplification. At every reporting date, the company evaluates whether the trade and other receivables are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the company reassesses the internal credit rating of the trade and other receivable. In addition, the company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

Related party receivables

Receivables from related parties are recognised and carried at the amortised cost.

1 Summary of significant accounting policies (continued)

(h) Loans and advances

All loans and advances are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the loans and advances.

Loans and advances represent loans made to members of The Royal Automobile Association of South Australia Inc. and to the public.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method.

Impairment of loans and advances

The company recognises an allowance for expected credit losses (ECLs) for all loans and advances. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL). When estimating the ECLs, the company considers three scenarios (a base case, an upside and a downside).

Stage 1 credit losses are assessed over a 12-month basis and consist of those loans with the highest credit rating. Stage 2 credit losses assessed are over a lifetime basis and consists of loans that are over 30 days past due, but under 90 days. Stage 1 and Stage 2 allowances are assessed collectively. Stage 3 credit losses are those loans that are over 90 days past due, with the allowances assessed individually.

The company considers loans and advances in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into any credit enhancements held by the company.

The company uses a provision matrix to calculate ECLs for loans and advances. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, and customer type and rating). The provision matrix is initially based on the company's historical observed default rates. The company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., consumer confidence) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Forward looking information does not have a significant impact on the ECL provision for the company.

1 Summary of significant accounting policies (continued)

(i) Investments and other financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient, the company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

(i) Financial assets at amortised cost (debt instruments)

This category is the most relevant to the company. The company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The company's financial assets at amortised cost include trade and other receivables.

(ii) Financial assets at fair value through OCI (debt instruments)

The company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1 Summary of significant accounting policies (continued)

(i) Investments and other financial assets (continued)

(ii) Financial assets at fair value through OCI (debt instruments) (continued)

For debt instruments at fair value through OCI, interest income and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to income statement. During the year, the company did not hold any financial assets at fair value through OCI (debt instruments).

(iii) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. During the year, the company did not hold any financial assets designated at fair value through OCI (equity instruments).

(iv) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. During the year, the company did not hold any financial assets at fair value through profit or loss.

Impairment of financial assets
The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the company applies the low credit risk simplification. At every reporting date, the company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the company reassesses the internal credit rating of the debt instrument. In addition, the company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

It is the company's policy to measure ECLs on debt instruments at fair value through OCI on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

1 Summary of significant accounting policies (continued)

(i) Investments and other financial assets (continued)

The company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial assets and liabilities is calculated by discounting the expected future cash flows by the current interest rate for assets and liabilities with similar risk profiles.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(m) Borrowing costs

Borrowing costs and other expenses associated with the raising of finance but which are not directly attributable to any individual investment note are expensed in the period in which they are incurred.

Interest expense on notes is recognised as it accrues, using the effective interest method.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(o) Contributed equity

Ordinary shares are classified as equity (note 14).

(p) 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.

1 Summary of significant accounting policies (continued)

(p) Goods and Services Tax (GST) (continued)

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 flow.

(q) New accounting standards and interpretations

All accounting standards and amendments that were effective during the year have been adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods and have not yet been applied in the financial statements.

The company plans to adopt these standard amendments from the date on which it becomes effective.

(i) AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material (effective 1 January 2020)

This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information.

The amendments are not expected to have a significant impact on the company's financial statements.

(ii) AASB 2019-5 Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia (effective 1 Jan 2020)

This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.

The amendments are not expected to have a significant impact on the company's financial statements.

(iii) AASB 2019-1 Amendments to Australian Accounting Standards - References to the Conceptual Framework (effective 1 Jan 20)

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The amendments are not expected to have a significant impact on the company financial statements.

(r) Comparative figures

Comparative figures are, where appropriate, reclassified to be comparable with figures presented in the current financial statements.

2 Financial risk management

The company's principal financial instruments, comprise loans and advances, secured notes, shareholders loans and cash. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

2 Financial risk management (continued)

The company's activities expose it to a variety of financial risks: market risk (price risk including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company.

The company manages its risk through a comprehensive set of policies, procedures and limits approved by the Board. Management of all instruments is integrated into the company's risk management practices and speculative transactions are not permitted.

Details of the significant accounting policies and methods adopted, including the recognition criteria, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial report.

The company holds the following financial instruments:

	2020 **$**	2019 $
Financial assets		
Cash and cash equivalents	**2,207,779**	2,496,697
Trade and other receivables	**2**	2
Loans and advances	**4,336,318**	8,621,890
	6,544,099	11,118,589
Financial liabilities		
Trade and other payables	**74,031**	83,115
Borrowings	**412,154**	4,955,882
	486,185	5,038,997

(a) Market risk

(i) Fair value interest rate risk

The company's main interest rate risk arises from changes in the shape and direction of interest rates (yield curve risk) as well as mismatches in the repricing term of assets and liabilities. Interest rate risk is monitored by the company under guidelines and limits defined by the Board in relation to acceptable levels of predefined margins between lending and borrowing rates.

The assumption for using -0.5% / +0.5% (2019: -0.5% / +0.5%) for interest rate risk for the purpose of the sensitivity analysis, are based on historical trends over 12 months and what is considered a realistic movement in these financial assets and liabilities within the next 12 months.

The company analyses the interest rate exposure by taking into consideration refinancing and renewal of existing positions. Based on these considerations, the company calculates the impact on post tax profit and loss of a defined interest rate shift. At 30 June 2020, if the interest rates had changed by -0.5% / +0.5% (2019: -0.5% / +0.5%) from the year end rates with all other variables held constant, post tax profit for the year would have been ($0)/$7,727 (2019: ($10,807)/$10,807) lower/higher.

(ii) Summarised sensitivity analysis

The following table summarises the sensitivity of the company's financial assets and financial liabilities to variable interest rate risk and price risk holding all other variables constant.

2 Financial risk management (continued)

(a) Market risk (continued)

(ii) Summarised sensitivity analysis (continued)

At 30 June 2020	Carrying amount $	-0.5% Profit $	-0.5% Equity $	+0.5% Profit $	+0.5% Equity $
Financial assets					
Cash and cash equivalents	2,207,779	-	-	7,727	7,727
Loans and advances	4,336,318	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	412,154	-	-	-	-
Total increase/ (decrease)		-	-	7,727	7,727

At 30 June 2019	Carrying amount $	-0.5% Profit $	-0.5% Equity $	+0.5% Profit $	+0.5% Equity $
Financial assets					
Cash and cash equivalents	2,496,697	(10,807)	(10,807)	10,807	10,807
Loans and advances	8,621,890	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	4,955,882	-	-	-	-
Total increase/ (decrease)		(10,807)	(10,807)	10,807	10,807

Movement in profits are due to higher or lower interest costs from variable rate cash balances.

(b) Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of a customer to meet their obligations to the company on time and in full, as contracted. To address this risk, the company has implemented a robust credit risk management framework which has been approved by the Board. The company's maximum exposure to credit risk at balance sheet date in relation to each class of recognised financial assets, is the carrying amount of these assets as indicated in the Balance Sheet.

All new customers were assessed for credit worthiness when an application for loan/credit was received. The credit quality of a customer was assessed by taking into account their financial position, previous credit history and duration at their current place of employment and residence. Customers that did not satisfy the credit test were denied credit. Larger transactions over a specific threshold were referred to the Board for assessment and approval. At 30 June 2020, the expected credit loss rates were as follows:

	Stage 1 individual	Stage 2 Individual
Consumer	0.60%	1.61%

Stage 3 credit losses are those loans that are over 90 days past due, with the allowances assessed individually.

Cash and cash equivalents are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution. All cash and cash equivalents balances on the Balance Sheet at 30 June 2020 were with 'AA-' rated financial institutions.

All assets that are neither past due or impaired are not rated by an external agency and are considered to be of a good rating.

2 Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk on loans and advances

The company minimises concentration of credit risk in relation to finance receivables by undertaking transactions with a large number of customers. The customers are concentrated in Southern Australia and are all for personal loans.

(c) Liquidity risk

The company's liquidity policy is designed to ensure it has sufficient funds to meet its obligations as they fall due. There are two aspects to this risk. First, the company must ensure it has sufficient funds to meet day to day requirements arising from its normal activities. Second, the company must be able to cope with unforeseen outflows. The volume of liquid assets varies over time in line with market conditions, and is maintained in accordance with Board approved limits.

Maturities of financial liabilities

The tables below analyse the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2020	Less than 3 months $	3 - 12 months $	Between 1 and 5 years $	Total $
On balance sheet				
Borrowings	**287,154**	**125,000**	**-**	**412,154**
Trade and other payables	**74,031**	**-**	**-**	**74,031**
Total on balance sheet	**361,185**	**125,000**	**-**	**486,185**
Off balance sheet				
Interest on borrowings	**5,489**	**364**	**-**	**5,853**
Total off balance sheet	**5,489**	**364**	**-**	**5,853**
At 30 June 2019				
On balance sheet				
Borrowings	1,016,000	3,435,859	504,023	4,955,882
Trade and other payables	83,115	-	-	83,115
Total on balance sheet	1,099,115	3,435,859	504,023	5,038,997
Off balance sheet				
Interest on borrowings	26,230	48,454	17,571	92,255
Total off balance sheet	26,230	48,454	17,571	92,255

3 Critical accounting estimates and judgements

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

Deferred tax assets are recognised for deductible temporary differences to the extent that management considers that it is probable that future taxable profits will be available to utilise those temporary differences as described in note 9.

Estimates are made by the company in respect of the allowance for expected credit losses, as described in notes 1(h) and 10.

4 Other income

	2020 $	2019 $
Fees and commissions	**13,315**	20,975
Bad debts recovered	**14,458**	1,509
	27,773	22,484

5 Income tax expense

(a) Income tax expense

	Year ended 2020 $	2019 $
Current tax	**27,788**	-
Deferred tax	**-**	167,109
Adoption of new accounting standard	**-**	6,895
	27,788	174,004

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from operations before income tax expense	**13,006**	294,001
Tax at the Australian tax rate of 30.0%	**3,902**	88,200
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Carried forward losses de-recognised	**-**	63,945
Losses available for offsetting against future taxable income	**23,886**	21,859
Income tax expense	**27,788**	174,004

(c) Deferred income tax

Refer to note 9 for details of deferred tax assets.

6 Fair values and interest rate risk

(a) Fair values

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

	2020		2019	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
Cash	**2,207,779**	**2,207,779**	2,496,697	2,496,697
Other receivables	**2**	**2**	2	2
Loans and advances - Consumer	**4,506,647**	**4,548,955**	8,712,736	8,681,548
	6,714,428	**6,756,736**	11,209,435	11,178,247

The fair values of other receivables are estimated using discounted cash flow analysis, based on current lending rates for similar types of lending arrangements of 6.36% (2019: 7.28%).

For the purposes of fair value disclosure under AASB 13, the loans would be categorised as a level 2 asset where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

(b) Interest rate risk

The following table sets out the carrying amount, by maturity or repricing, whichever is earlier, of the financial assets of the company exposed to interest rate risk.

		Fixed interest maturing in:			
2020	Floating interest rate $	1 year or less $	Over 1 to 5 years $	Non interest bearing $	Total $
Cash	2,207,779	-	-	-	2,207,779
Trade and other receivables	-	-	-	2	2
Loans and advances - Consumer	-	2,114,083	2,392,564	-	4,506,647
	2,207,779	2,114,083	2,392,564	2	6,714,428
Weighted average effective interest rate					
Cash					-%
Loans and advances - Consumer					6.99%

6 Fair values and interest rate risk (continued)

(b) Interest rate risk (continued)

2019	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Over 1 to 5 years $	Non interest bearing $	Total $
Cash	2,496,697	-	-	-	2,496,697
Trade and other receivables	-	-	-	2	2
Loans and advances - Consumer	-	2,961,454	5,751,282	-	8,712,736
	2,496,697	2,961,454	5,751,282	2	11,209,435

Weighted average effective interest rate

Cash	1.25%
Loans and advances - Consumer	7.08%

7 Assets - Cash and cash equivalents

	2020 $	2019 $
Cash at bank and in hand	**2,207,779**	2,496,697
Balance as per cash flow statement	**2,207,779**	2,496,697

(a) Cash and cash equivalents

The carrying amount for cash and cash equivalent approximates fair value. Cash at bank earns interest at floating rates and on daily bank deposit rates.

8 Assets - Trade and other receivables

	2020 $	2019 $
Amounts due from related parties	**2**	2

(a) Interest rate risk

Information concerning the effective interest rate relating to receivables is set out in note 6.

(b) Credit risk

Refer to note 2 for more information on the risk management policy of the company.

9 Assets - Deferred tax assets

	2020 $	2019 $
The balance comprises temporary differences attributable to:		
Accrued expenses	-	11,286
Provision for doubtful debts	-	12,290
Taxed future revenue for accounting purposes	-	2,177
Expenses claimable over five years	-	2,035
Net deferred tax assets	-	27,788
Movements:		
Charged/credited:		
Opening balance	**27,788**	194,897
- to profit or loss	-	(174,004)
- charged to income statement	**(27,788)**	-
- charged to equity	-	6,895
Closing balance at 30 June	-	27,788
Deferred tax asset	-	27,788
Net deferred tax assets	-	27,788

MCFL has carried forward historical tax losses of $765,441 (2019: $742,456).

A deferred tax asset has not been recognised in respect of these losses, as these are not expected to be recoverable.

10 Assets - Loans and Advances

	2020 $	2019 $
Term Loans	**4,513,472**	8,718,312
Unearned Income	**(6,775)**	(5,576)
Allowance for expected credit losses	**(170,379)**	(90,846)
Net loans and advances	**4,336,318**	8,621,890

10 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2020 $	2019 $
Not longer than 3 months	**343,299**	614,068
Longer than 3 and not longer than 12 months	**1,607,420**	2,256,540
Longer than 1 and not longer than 5 years	**2,385,599**	5,751,282
	4,336,318	8,621,890

(b) Impairment of loans and advances

As at 30 June 2020, receivables with a nominal value $32,129 (2019: $45,903) were impaired. It is expected that a portion of the nominal value will not be recovered and the amount of the provision was $25,303 (2019: $45,903).

"Non-accrual loans" are loans and advances where the debt has been written down to recoverable value. The Board is of the view that recovery of the principal only will occur on these loans. Once classified as a non-accrual loan, interest accruing on the loan in not brought to account as income. The interest foregone on non-accrual loans was $6,775 (2019: $5,576).

At 30 June 2020, receivables of $80,800 (2019: $182,270) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2020 $	2019 $
Up to 3 months	**80,800**	134,528
3 to 6 months	**-**	-
Over 6 months	**-**	47,742
	80,800	182,270

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2020 if their terms were not negotiated was $5,566 (2019: $47,742). Collateral held as security for receivables past due or impaired were in the form of motor vehicles and motorcycles. The estimated fair value of the security of these receivables at 30 June 2020 was $5,566 (2019: $175,978).

	2020 $	2019 $
Stage 3 allowance for expected credit losses		
Opening Balance	**(45,903)**	(25,000)
Credit loss expense	**(11,787)**	(78,043)
Non-accrual loans written off	**32,387**	57,140
	(25,303)	(45,903)

10 Assets - Loans and Advances (continued)

	2020 $	2019 $
Stage 1 and 2 allowance for expected credit losses		
Opening balance	**(44,943)**	(66,869)
Credit loss expense	**(100,133)**	21,926
	(145,076)	(44,943)
Credit loss expense		
Stage 3 individually assessed	**(11,787)**	(78,043)
Stage 1 and 2 collectively assessed	**(100,133)**	21,926
	(111,920)	(56,117)

The increase in the ECL of the portfolio was driven by expectations of worsening future economic conditions, as a result of COVID-19. Due to this, it is considered that there is a higher probability of realising a future credit loss compared to historical results and that higher expected credit losses will occur. This assessment has been made with reference to macroeconomic assumptions, Government programmes and historical results. Refer to note 2(b) for further information on credit risk and credit loss rates.

11 Assets - Prepayments

	2020 $	2019 $
Prepayments	**45,748**	11,064

12 Liabilities - Trade and other payables

	2020 $	2019 $
Accrued Interest	**5,741**	10,730
Amounts due to related parties	**8,267**	10,382
Accrued expenses	**59,936**	61,979
Other payables	**87**	24
	74,031	83,115

The carrying amount of trade and other payables approximates its fair value and is non interest bearing. Repayment is expected to occur within 30 days, except for amounts due to related parties which is at call.

Accrued interest

Payment of interest is in accordance with each type of borrowing. All interest is remitted within 12 months from accrual.

Further information relating to loans from related parties is set out in note 19.

Accrued expenses

These amounts represent liabilities for payments to suppliers and commissions prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of all the other amounts approximate to their fair value and are non interest bearing.

13 Liabilities - Interest bearing loans and borrowings

	2020 $	2019 $
Secured		
Investment notes	**412,154**	955,882
Total secured borrowings	**412,154**	955,882
Unsecured		
Shareholders loans	**-**	4,000,000
Total unsecured borrowings	**-**	4,000,000
Total borrowings	**412,154**	4,955,882

(a) Terms and conditions

All other transactions were made on normal commercial terms and conditions, except that there are no fixed terms for the repayment of loans from the parent entities.

Outstanding balances are unsecured and are repayable in cash.

13 Liabilities - Interest bearing loans and borrowings (continued)

(b) Secured liabilities and assets pledged as security

The investment notes issued by the company are secured by way of a first ranking floating charge over the total assets of Motoring Club Finance Limited carried at $6,589,847 (2019: $11,157,441). All investment notes that are secured by the first ranking floating charge rank equally with all other issued investment notes stock. The terms and conditions of the pledge are specified in the Trust Deed ("Deed") which is an agreement between Motoring Club Finance Limited and Equity Trustees Ltd. The provisions of the Deed are binding on Motoring Club Finance Limited for the protection of investors. Management limits the amount Motoring Club Finance Limited may borrow, requiring Total Equity divided by the sum of Total Liabilities and Total Equity, to be greater than 8%.

(c) Fair value

The carrying amounts and fair values of borrowings at the end of the reporting period are:

	At 30 June 2020		At 30 June 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
The Royal Automobile Association of South Australia Inc. loan	-	-	2,000,000	2,005,854
RACWA Holdings Pty Ltd loan	-	-	2,000,000	2,005,854
Investment notes	**412,154**	**420,830**	955,882	970,098
	412,154	**420,830**	4,955,882	4,981,806

The fair values of borrowings are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements which is 1.35%.

(d) Investment notes

Investment notes held at balance date have an effective weighted average interest rate of 3.48% (2019: 2.94%) paid quarterly or annually in arrears with average maturity of August 2020.

During the current financial period, the loans were fully repaid.

(e) Interest rate risk exposures

The following table sets out the carrying amount, by maturity or repricing, whichever is earlier, of the financial liabilities of the company exposed to interest rate risk.

2020	Fixed interest rate 1 year or less	Over 1 to 2 years	Total
	$	$	$
Investment notes	412,154	-	412,154
	412,154	-	412,154
Weighted average interest rate			3.48%

13 Liabilities - Interest bearing loans and borrowings (continued)

(e) Interest rate risk exposures (continued)

2019	Fixed interest rate 1 year or less $	Over 1 to 3 years $	Total $
Investment notes	451,859	504,023	955,882
Shareholders loans	4,000,000	-	4,000,000
	4,451,859	504,023	4,955,882
Weighted average interest rate			2.94%

14 Contributed equity

(a) Share capital

	2020 Shares	2019 Shares	**2020 $**	2019 $
Ordinary shares				
Issued and paid up capital	**7,000,002**	7,000,002	**7,000,002**	7,000,002

(b) Ordinary shares

All shares issued are ordinary shares and there are no rights, preferences or restrictions attached to the share including restrictions on the distribution of dividends and the repayment of capital.

(c) Capital risk management

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the company may pay dividends to shareholders, return capital to shareholders or issue new shares.

Consistently with others in the industry, the company monitors capital on the basis of an equity ratio. This ratio is calculated as total equity divided by total debt plus total equity. Total debt is calculated as 'total liabilities' as shown in the balance sheet) and total equity is calculated as 'total equity' as shown in the balance sheet.

The Australian Securities and Investments Commission (ASIC) Regulatory Guide 69 sets out eight benchmarks for issuers to address in a prospectus on an "if not, why not" basis. The benchmarks are not mandatory and are to assist investors to understand the risks and rewards being offered prior to making an investment decision. ASIC Benchmark 1 Equity Capital ratio states that a minimum equity ratio of 20% should be held for issuers with more than 10% of its lending activity directly or indirectly for property development and 8% in all other cases. The company currently has an equity ratio of 92.6% (2019: 54.8%) which meets the requirement of 8%.

14 Contributed equity (continued)

(c) Capital risk management (continued)

	2020 $	2019 $
Total debt	**486,185**	5,038,997
Total equity	**6,103,662**	6,118,444
Net debt	**6,589,847**	11,157,441
Equity ratio	**92.6%**	54.8%

The increase in the equity ratio during 2020 resulted primarily from a decrease in borrowings during the year.

15 Accumulated losses

Accumulated losses

Movements in accumulated losses were as follows:

	2020 $	2019 $
Balance 1 July	**(881,558)**	(985,470)
Net (loss)/profit for the year	**(14,782)**	119,997
Adoption of new accounting standard	**-**	(16,085)
Balance 30 June	**(896,340)**	(881,558)

16 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms:

(a) Ernst & Young Australia

	2020 $	2019 $
Audit services		
Audit and review of financial statements	**43,835**	56,637
Other assurance services	**11,440**	11,440
Taxation services		
Tax compliance services,including review of company income tax returns	**1,540**	1,540
Total auditors' remuneration	**56,815**	69,617

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

17 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities at 30 June 2020 (2019: nil).

18 Commitments

(a) Credit related commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitments represents the maximum amount that could be advanced.

	2020 $	2019 $
	-	-

19 Related party transactions

(a) Parent entities

The parent entities are RACWA Holdings Pty Ltd and The Royal Automobile Association of South Australia Inc.

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2020 $	2019 $
Provision of goods and services		
RAC Finance Limited management fee	**133,507**	153,371

RAC Finance Ltd is a wholly owned subsidiary of RACWA Holdings Pty Ltd and provides management services to Motoring Club Finance Limited.

(c) Outstanding balances arising from provision of services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2020 $	2019 $
Current payables (management fees and trade and other payables)		
RAC Finance Ltd	**8,267**	10,382

19 Related party transactions (continued)

(d) Loans from parent entities

	2020 $	2019 $
Loans from RACWA Holdings Pty Ltd and The Royal Automotive Association of South Australia Inc. (ultimate Australian parent entities)		
Beginning of the year	**4,000,000**	9,110,200
Interest charged	**43,123**	153,169
Interest paid	**(43,123)**	(263,369)
Loan repayments	**(4,000,000)**	(5,000,000)
End of year	**-**	4,000,000

(e) Terms and conditions

All other transactions were made on normal commercial terms and conditions, except that there are no fixed terms for the repayment of loans from the parent entities.

During the current financial period, the loans were fully repaid.

20 Events occurring after the reporting period

The financial statements have been prepared based upon conditions existing at 30 June 2020 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As of the date of this report, minimal adjustments have been made to the financial statements as at 30 June 2020 due to the impact of COVID-19.

21 Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities

	2020 $	2019 $
(Loss)/profit for the year	**(14,782)**	119,997
Allowance for expected credit losses	**79,533**	(1,027)
Credit loss expense	**32,387**	57,140
Change in operating assets and liabilities:		
Increase in other assets	**(34,683)**	(878)
Decrease in accrued interest payable	**(7,104)**	(150,999)
(Decrease)/increase in trade and other payables	**(1,980)**	2,727
Decrease in customer loans advanced	**4,173,652**	5,429,909
Decrease in borrowings	**(543,729)**	(1,304,386)
Decrease in deferred tax assets	**27,788**	174,004
Net cash inflow from operating activities	**3,711,082**	4,326,487

Motoring Club Finance Limited
Directors' declaration
30 June 2020

In accordance with a resolution of the Directors of Motoring Club Finance Limited, I state that:

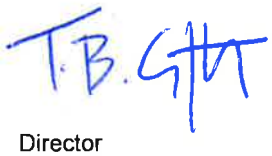
In the Directors' opinion:

(a) the financial report and notes of the company are in accordance with the *Corporations Act 2001*, including:
  (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;*
  (ii) giving a true and fair view of the entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

(b) the financial report and associated notes are also in accordance with International Financial Reporting Standards as described in Note 1 to the financial report.

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Director

T B Griffiths
Director
Adelaide, S.A.
13 August 2020

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Auditor's Independence Declaration to the Directors of Motoring Club Finance Limited

As lead auditor for the audit of the financial report of Motoring Club Finance Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

Ernst & Young

F Drummond
Partner

13 August 2020

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Independent auditor's report to the members of Motoring Club Finance Limited

Opinion

We have audited the financial report of Motoring Club Finance Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of 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 2020 and of its financial performance for the year ended on that date; and

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

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 are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information is the Corporate Governance Statement and Directors' Report accompanying the financial report.

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, 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.

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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 Company's ability to continue as a going concern, disclosing, as applicable, matters relating 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

F Drummond
Partner
Perth

13 August 2020

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