Motoring Club Finance Limited

ABN 56 167 246 899

Annual report
for the year ended 30 June 2019

Motoring Club Finance Limited ABN 56 167 246 899
Annual report - 30 June 2019

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Directors' report

Your Directors present their report on the company for the year ended 30 June 2019.

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 (appointed 1 December 2018)
I H Stone (resigned 1 December 2018)
T T Agnew (Alternate Director) (resigned 28 September 2018)
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.

I H Stone (BEc, FCA) resigned as a Director of MCFL effective 1 December 2018 after 5 years in office. Ian has extensive senior management experience and expertise in the motor, home and health insurance industry and is currently the Managing Director of RAA. Ian is also a Director of RAA Insurance Ltd and various Australian automotive associated entities.

T T Agnew (MSc, MBA, BEng Hons) resigned as an alternate Director of MCFL on 28 September 2018. He has had a range of executive and board roles with private and public companies, mutual and member organisations, government, and educational organisations.

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. Investment notes will be paid upon maturity.

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 place Motoring Club Finance Limited in run-off.

Review of operations

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

The profit from ordinary activities after income tax amounted to $119,997 (2018: $391,370).

Revenue and fee income totalled $901,060 (2018: $1,423,277).

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

There have been no significant events subsequent to balance sheet date.

Likely developments and expected results of operations

There are no likely developments which will significantly impact the expected results of the operations of the company.

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^	1	0	1	0
I H Stone^^	2	1	1	0
T B Griffiths	3	3	2	2
A J Pickworth	3	3	2	1
G B Mather	3	2	2	2
T T Agnew^^^	1	0	0	0

* 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
^ Appointed 1 December 2018
^^ Resigned 1 December 2018
^^^ Resigned 28 September 2018

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 2019. The independence declaration can be found on page 40 and forms part of this report.

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

T B Griffiths
Director

Adelaide, S.A.
22 August 2019

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	5.5 years
G B Mather	Director	5.5 years
T Griffiths	Director	3.75 years
D Parr	Director	0.58 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	
I H Stone	Director	(until 1 December 2018)
T Griffiths	Director	
D Parr	Director	(from 1 December 2018)

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:

B D Darling	MCFL Chief Executive Officer
G Mather	Chairman, Director
T Griffiths	Director
W Scott	RACF Financial Controller

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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 22 August 2019. The Directors have the power to amend and reissue the financial report.

Motoring Club Finance Limited
Income statement
For the year ended 30 June 2019

	Notes	**2019** **$**	2018 $
Revenue			
Interest revenue		**878,576**	1,381,865
Interest expense		**(242,554)**	(413,850)
Net interest income		**636,022**	968,015
Other income	4	**22,484**	41,412
Expenses			
Management fees		**(153,371)**	(219,109)
Other operating expenses		**(119,277)**	(135,317)
Credit loss expense		**(57,140)**	(46,677)
Borrowing costs		**(34,717)**	(47,120)
Profit/(loss) before income tax		**294,001**	561,204
Income tax expense	5	**(174,004)**	(169,834)
Profit/(loss) from operations		**119,997**	391,370
Profit/(loss) for the year		**119,997**	391,370

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 2019

	Notes	2019 $	2018 $
Profit/(loss) for the year		**119,997**	391,370
Total comprehensive profit/(loss) for the year is attributable to:			
Owners of Motoring Club Finance Limited		**119,997**	391,370
		119,997	391,370

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 2019

	Notes	2019 $	2018 $
ASSETS			
Cash and cash equivalents	7	**2,496,697**	3,170,210
Trade and other receivables	8	**2**	2
Loans and advances	10	**8,621,890**	14,130,893
Deferred tax assets	9	**27,788**	194,897
Prepayments	11	**11,064**	10,186
Total assets		**11,157,441**	17,506,188
LIABILITIES			
Trade and other payables	12	**83,115**	231,387
Interest bearing loans and borrowings	13	**4,955,882**	11,260,269
Total liabilities		**5,038,997**	11,491,656
Net assets		**6,118,444**	6,014,532
EQUITY			
Contributed equity	14	**7,000,002**	7,000,002
Accumulated losses	15	**(881,558)**	(985,470)
Total equity		**6,118,444**	6,014,532

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 2019

	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2017	7,000,002	(1,376,840)	5,623,162
Profit for the period	-	391,370	391,370
Balance at 30 June 2018	**7,000,002**	**(985,470)**	**6,014,532**
Balance at 1 July 2018	7,000,002	(985,470)	6,014,532
Profit for the period	-	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**

* Refer to Note 1(b)(ii)

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 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Interest and other operating income from customers		**829,794**	1,320,551
Interest received from deposits		**38,595**	21,900
Interest payments		**(393,553)**	(600,730)
Recoveries on loans previously written off		**1,509**	842
Cash payments to suppliers		**(312,116)**	(439,366)
Customer loan repayments received		**5,466,644**	7,170,784
Repayment of borrowings		**(1,304,386)**	(6,143,127)
Net cash inflow from operating activities	21	**4,326,487**	1,330,854
Cash flows from financing activities			
Repayment of shareholders' loans		**(5,000,000)**	-
Net cash outflow from financing activities		**(5,000,000)**	-
Net (decrease)/increase in cash and cash equivalents		**(673,513)**	1,330,854
Cash and cash equivalents at the beginning of the financial year		**3,170,210**	1,839,356
Cash and cash equivalents at end of year	7	**2,496,697**	3,170,210

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

Contents of the notes to the financial statements

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2018:

- *AASB 15 Revenue from Contracts with Customers.*

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

- *AASB 9 Financial Instruments (effective from 1 January 2018)*

AASB 9 *Financial Instruments* replaces AASB *139 Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company has applied AASB 9 retrospectively, with the initial application date of 1 July 2018. The company has not restated comparative information.

The effect of adopting AASB 9 is as follows:

The adoption of the impairment requirements of AASB 9 resulted in an increase in the loss allowance, resulting in a negative impact on equity.

Impact on assets and equity (increase/(decrease)) on initial application:

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(ii) New and amended standards adopted by the company (continued)

Assets	
Loans and advances	(22,980)
Deferred tax assets	6,895
Total assets	(16,085)
Net impact on equity:	
Retained earnings	(16,085)

Set out below is the reconciliation of the ending impairment allowances in accordance with AASB 139 to the opening loss allowances determined in accordance with AASB 9:

	Provision for impairment under AASB 139 $	Re-measurement $	Expected credit loss under AASB9 as at 1 July 2018 $
Loans and advances	68,889	22,980	91,869

Classification and measurement
There is no significant impact on the company's balance sheet or equity on applying the classification and measurement requirements of AASB 9. Loans and advances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Loans and advances continue to be accounted for at amortised cost. Cash and cash equivalents was previously classified as loans and receivables under AASB 139. Under AASB 9, cash and cash equivalents is classified as financial assets at amortised cost. The classification for all other financial assets and financial liabilities remains the same as it was under AASB 139 and no other financial assets and financial liabilities have been designated as fair value through profit or loss. Therefore, reclassification for these instruments is not required.

The impairment provision has been reclassified as an expected credit loss (ECL) upon initial application, however the impairment provision in the comparative information for each of the primary financial statements follows the classification and measurement requirements of AASB 139. Other than the expected credit loss adjustment, no changes in measurement have occurred for financial assets or financial liabilities.

1 Summary of significant accounting policies (continued)

(b) Basis of preparation (continued)

(ii) New and amended standards adopted by the company (continued)

Impairment
AASB 9 requires the company to record expected credit losses on all its loans and advances. The company has applied the standard's simplified approach and has calculated the ECLs based on either a 12 month or lifetime ECL basis. The company has established a provision matrix that is based on the company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The adoption of the ECL requirements of AASB 9 has not had a significant impact on the company's balance sheet or equity.

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 any credit enhancements held by the company.

The adoption of the ECL requirements of AASB 9 resulted in increases in impairment allowances of the company's debt financial assets. The increase in allowance resulted in an adjustment to retained earnings.

Other adjustments
In addition to the adjustments described above, on adoption of AASB 9, other items of the primary financial statements such as deferred taxes will be adjusted as necessary.

(iii) Historical cost convention

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

(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.

1 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(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.

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.

1 Summary of significant accounting policies (continued)

(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.

Prior year policies on impairment of loans and advances

Specific provisions are raised when there is objective evidence that an impairment loss on loans and advances has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and present value of estimated future cash flows using the original effective interest rate.

Loans that are not known to be impaired are grouped together according to their risk characteristics and are then assessed for impairment. The appropriate collective provision is raised, based on historical loss data and current available information for assets with similar risk characteristics.

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 2019 reporting periods and have not yet been applied in the financial statements.

The company plans to adopt these standards and interpretations from the date on which the standard/interpretation becomes effective.

(i) AASB Interpretation 23 Uncertainty over Income Tax Treatments, and relevant amending standards (effective from 1 January 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in *AASB 112 Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:
• Whether an entity considers uncertain tax treatments separately
• The assumptions an entity makes about the examination of tax treatments by taxation authorities
• How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
• How an entity considers changes in facts and circumstances.

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

(ii) AASB 2018-1 Annual improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019)

The amendments clarify certain requirements in:
• *AASB 3 Business Combinations* and *AASB 11 Joint Arrangements* - previously held interest in a joint operation
• *AASB 112 Income Taxes* - income tax consequences of payments on financial instruments classified as equity
• *AASB 123 Borrowing Costs* - borrowing costs eligible for capitalisation.

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 for Financial Reporting

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.

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:

	2019 **$**	2018 $
Financial assets		
Cash and cash equivalents	**2,496,697**	3,170,210
Trade and other receivables	**2**	2
Loans and advances	**8,621,890**	14,130,893
	11,118,589	17,301,105
Financial liabilities		
Trade and other payables	**83,115**	231,387
Borrowings	**4,955,882**	11,260,269
	5,038,997	11,491,656

(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% (2018: -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 2019, if the interest rates had changed by -0.5% / +0.5% (2018: -0.5% / +0.5%) from the year end rates with all other variables held constant, post tax profit for the year would have been ($10,807)/$10,807 (2018: ($6,132)/$6,132) lower/higher.

2 Financial risk management (continued)

(a) Market risk (continued)

(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.

		-0.5%		+0.5%	
At 30 June 2019	Carrying amount $	Profit $	Equity $	Profit $	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

		-0.5%		+0.5%	
At 30 June 2018	Carrying amount $	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	3,170,210	(6,132)	(6,132)	6,132	6,132
Loans and advances	14,130,893	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	11,260,269	-	-	-	-
Total increase/ (decrease)		(6,132)	(6,132)	6,132	6,132

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 2019, the expected credit loss rates were as follows:

	Stage 1 individual	Stage 2 Individual
Consumer	0.52%	1.35%

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

At 30 June 2018, average historical default rate was 0.31%.

2 Financial risk management (continued)

(b) Credit risk (continued)

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 2019 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.

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 2019	Less than 3 months $	3 - 12 months $	Between 1 and 5 years $	Total $
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**

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

At 30 June 2018

On balance sheet

Borrowings	1,718,578	4,564,960	4,976,731	11,260,269
Trade and other payables	231,387	-	-	231,387
Total on balance sheet	1,949,965	4,564,960	4,976,731	11,491,656

Off balance sheet

Interest on borrowings	89,371	155,023	94,869	339,263
Total off balance sheet	89,371	155,023	94,869	339,263

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

	2019 **$**	2018 $
Fees and commissions	**20,975**	40,570
Bad debts recovered	**1,509**	842
	22,484	41,412

5 Income tax expense

(a) Income tax expense

	Year ended **2019** **$**	2018 $
Deferred tax	**167,109**	169,834
Adoption of new accounting standard	**6,895**	-
	174,004	169,834

5 Income tax expense (continued)

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

Profit/(loss) from operations before income tax expense	**294,001**	561,204
Tax at the Australian tax rate of 30.0%	**88,200**	168,361
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Carried forward losses de-recognised	**63,945**	1,473
Losses available for offsetting against future taxable income	**21,859**	-
Income tax expense	**174,004**	169,834

(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:

	2019		2018	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
Cash	**2,496,697**	**2,496,697**	3,170,210	3,170,210
Other receivables	**2**	**2**	2	2
Loans and advances - Consumer	**8,712,736**	**8,681,548**	14,199,782	14,267,287
	11,209,435	**11,178,247**	17,369,994	17,437,499

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 7.28% (2018: 6.98%).

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.

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%

2018	Floating interest rate	Fixed interest maturing in: 1 year or less	Over 1 to 5 years	Non interest bearing	Total
	$	$	$	$	$
Cash	3,170,210	-	-	-	3,170,210
Trade and other receivables	-	-	-	2	2
Loans and advances - Consumer	-	1,767,083	12,432,699	-	14,199,782
	3,170,210	1,767,083	12,432,699	2	17,369,994

Weighted average effective interest rate

Cash	1.25%
Loans and advances - Consumer	7.19%

7 Assets - Cash and cash equivalents

	2019 **$**	2018 $
Cash at bank and in hand	**2,496,697**	3,170,210
Balance as per cash flow statement	**2,496,697**	3,170,210

(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

	2019 **$**	2018 $
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

	2019 **$**	2018 $
The balance comprises temporary differences attributable to:		
Accrued expenses	**11,286**	12,902
Provision for doubtful debts	**12,290**	20,667
Taxed future revenue for accounting purposes	**2,177**	13,184
Expenses claimable over five years	**2,035**	9,133
Tax losses recognised	**-**	139,011
Net deferred tax assets	**27,788**	194,897
Movements:		
Charged/credited:		
Opening balance	**194,897**	364,731
- to profit or loss	**(174,004)**	(169,834)
- charged to equity	**6,895**	-
Closing balance at 30 June	**27,788**	194,897
Deferred tax asset	**27,788**	194,897
Net deferred tax assets	**27,788**	194,897

A deferred tax asset has been recognised as the company is expected to make a profit in the future and therefore the deferred tax asset is recoverable out of profits in future periods.

In addition to the above MCFL has carried forward historical tax losses of $742,456 (2018: $992,677).

10 Assets - Loans and Advances

	2019 **$**	2018 $
Term Loans	**8,718,312**	14,202,925
Unearned Income	**(5,576)**	(3,143)
Specific provision for impairment	**-**	(25,000)
Collective provision for impairment	**-**	(43,889)
Allowance for expected credit losses	**(90,846)**	-
Net loans and advances	**8,621,890**	14,130,893

10 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2019 $	2018 $
Not longer than 3 months	**614,068**	324,928
Longer than 3 and not longer than 12 months	**2,256,540**	1,417,155
Longer than 1 and not longer than 5 years	**5,751,282**	12,432,699
Collective provision for impairment	**-**	(43,889)
	8,621,890	14,130,893

(b) Impairment of loans and advances

As at 30 June 2019, receivables with a nominal value $45,903 (2018: $46,677) were impaired. It is expected that a portion of the nominal value will not be recovered and the amount of the provision was $45,903 (2018: $25,000).

"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 $5,576 (2018: $3,143).

At 30 June 2019, receivables of $182,270 (2018: $322,328) 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:

	2019 $	2018 $
Up to 3 months	**134,528**	256,537
3 to 6 months	**-**	65,791
Over 6 months	**47,742**	-
	182,270	322,328

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2019 if their terms were not negotiated was $47,742 (2018: $65,696). 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 2019 was $175,978 (2018: $322,328).

	2019 $	2018 $
*Stage 3 allowance for expected credit losses**		
Opening Balance	**(25,000)**	-
Credit loss expense	**(78,043)**	-
Non-accrual loans written off	**57,140**	-
	(45,903)	-

10 Assets - Loans and Advances (continued)

	2019 $	2018 $
*Stage 1 and 2 allowance for expected credit losses**		
Opening balance after effect of adoption of AASB 9	**(66,869)**	-
Credit loss expense	**21,926**	-
	(44,943)	-
Specific provision for impairment		
Opening balance	-	-
Doubtful debts expense	-	(25,000)
Non-accrual loans written off	-	-
	-	(25,000)
Collective provision for impairment		
Opening balance	-	(55,075)
Doubtful debts	-	11,186
	-	(43,889)
Credit loss expense		
Stage 3 individually assessed *	**(78,043)**	-
Stage 1 and 2 collectively assessed	**21,926**	-
Specific provisions for impairment	-	(25,000)
Doubtful debts	-	11,186
	(56,117)	(13,814)

* Refer to notes 1(b)(ii) and 1(h) for further details.

The decrease in the ECL of the portfolio was driven by a decrease in the size of the portfolio and stable economic conditions. Refer to note 2(b) for further information on credit risk and credit loss rates.

11 Assets - Prepayments

	2019 $	2018 $
Prepayments	**11,064**	10,186

12 Liabilities - Trade and other payables

	2019 $	2018 $
Accrued Interest	**10,730**	153,756
Amounts due to related parties	**10,382**	18,354
Accrued expenses	**61,979**	58,241
Other payables	**24**	1,036
	83,115	231,387

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

	2019 $	2018 $
Secured		
Investment notes	**955,882**	2,260,269
Total secured borrowings	**955,882**	2,260,269
Unsecured		
Shareholders loans	**4,000,000**	9,000,000
Total unsecured borrowings	**4,000,000**	9,000,000
Total borrowings	**4,955,882**	11,260,269

(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 $11,157,441 (2018: $17,506,188). 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 2019		At 30 June 2018	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
The Royal Automobile Association of South Australia Inc. loan	**2,000,000**	**2,005,854**	4,500,000	4,487,220
RACWA Holdings Pty Ltd loan	**2,000,000**	**2,005,854**	4,500,000	4,487,220
Investment notes	**955,882**	**970,098**	2,260,269	2,274,371
	4,955,882	**4,981,806**	11,260,269	11,248,811

The fair values of borrowings are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.40% to 2.55%.

(d) Investment notes

Investment notes and shareholders loans held at balance date have an effective weighted average interest rate of 2.94% (2018: 3.03%) paid quarterly or annually in arrears with average maturity of August 2020. Remaining investment notes have terms ranging from 1 to 2 years. Interest is paid in accordance with the investors instructions which may be quarterly or annually or compounded annually.

(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.

2019	Fixed interest rate		
	1 year or less $	Over 1 to 2 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

13 Liabilities - Interest bearing loans and borrowings (continued)

(e) Interest rate risk exposures (continued)

Weighted average interest rate		2.94%

2018	Fixed interest rate 1 year or less $	Over 1 to 3 years $	Total $
Investment notes	1,283,538	976,731	2,260,269
Shareholders loans	5,000,000	4,000,000	9,000,000
	6,283,538	4,976,731	11,260,269
Weighted average interest rate			3.03%

14 Contributed equity

(a) Share capital

	2019 Shares	2018 Shares	**2019 $**	2018 $
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 54.8% (2018: 34.4%) which meets the requirement of 8%.

14 Contributed equity (continued)

(c) Capital risk management (continued)

	2019 $	2018 $
Total debt	**5,038,997**	11,491,656
Total equity	**6,118,444**	6,014,532
Net debt	**11,157,441**	17,506,188
Equity ratio	**54.8%**	34.4%

The increase in the equity ratio during 2019 resulted primarily from a decrease in borrowings during the year.

15 Accumulated losses

Accumulated losses

Movements in accumulated losses were as follows:

	2019 $	2018 $
Balance 1 July	**(985,470)**	(1,376,840)
Net profit for the year	**119,997**	391,370
Adoption of new accounting standard*	**(16,085)**	-
Balance 30 June	**(881,558)**	(985,470)

* Refer to note 1(b) for details of the change in accounting policy and the impact recognised on 1 July 2018.

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

	2019 $	2018 $
Audit services		
Audit and review of financial statements	**56,637**	48,550
Other assurance services	**11,440**	10,200
Taxation services		
Tax compliance services,including review of company income tax returns	**1,540**	-
Total auditors' remuneration	**69,617**	58,750

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 2019 (2018: 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.

	2019 **$**	2018 $
	-	-

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:

	2019 **$**	2018 $
Provision of goods and services		
RAC Finance Limited management fee	**153,371**	219,109

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:

	2019 **$**	2018 $
Current payables (management fees and trade and other payables)		
RAC Finance Ltd	**10,382**	18,354

19 Related party transactions (continued)

(d) Loans from parent entities

	2019 $	2018 $
Loans from RACWA Holdings Pty Ltd and The Royal Automotive Association of South Australia Inc. (ultimate Australian parent entities)		
Beginning of the year	**9,110,200**	9,119,211
Interest charged	**153,169**	258,244
Interest paid	**(263,369)**	(267,255)
Loan repayments	**(5,000,000)**	-
End of year	**4,000,000**	9,110,200

(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.

Outstanding balances are unsecured and are repayable in cash.

20 Events occurring after the reporting period

There has been no matter or circumstance that has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

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

	2019 $	2018 $
Profit for the year	**119,997**	391,370
Allowance for expected credit losses	**(1,027)**	13,814
Credit loss expense	**57,140**	46,677
Change in operating assets and liabilities:		
Increase in other assets	**(878)**	(702)
Decrease in accrued interest payable	**(150,999)**	(186,880)
Increase/(decrease) in trade and other payables	**2,727**	(50,932)
Decrease in customer loans advanced	**5,429,909**	7,090,800
Decrease in borrowings	**(1,304,386)**	(6,143,127)
Decrease in deferred tax assets	**174,004**	169,834
Net cash inflow from operating activities	**4,326,487**	1,330,854

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 2019 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.
22 August 2019

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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 2019, 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

Ernst & Young

F Drummond
Partner
22 August 2019

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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 balance sheet as at 30 June 2019, the income statement, 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 2019 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* (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.

- 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

Ernst & Young

F Drummond
Partner
Perth
22 August 2019