Motoring Club Finance Limited

ABN 56 167 246 899

Annual report for the year ended 30 June 2017

Motoring Club Finance Limited ABN 56 167 246 899
Annual report - 30 June 2017

Contents

Directors' report

Your Directors present their report on the company for the year ended 30 June 2017.

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:

I H Stone
T T Agnew (Alternate Director)
B J Clark
D K McGown (Alternate Director) (resigned 25 November 2016)
A J Pickworth
G B Mather
J W Smalberger
T B Griffiths
M A Stewart (Company Secretary)

Principal activities

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

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 loss from ordinary activities after income tax amounted to $319,737 (2016: $469,449).

Revenue and fee income totalled $1,636,024 (2016: $779,452).

Customer loans and advances issued during the year were $13,861,253 (2016: $13,932,096).

Dividends

No dividends were paid during the financial year.

Significant changes in the state of affairs

On 23 December 2016, following a strategic review, the Motoring Club Finance Limited Board decided to cease offering new investments 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. Investments notes will be paid upon maturity.

On 14 March 2017, the MCFL Board approved that MCFL cease offering new loans effective 1 April 2017 and place MCFL in run-off.

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.

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 2017. The independence declaration can be found on page 38.

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

I H Stone
Director

Adelaide, S.A.
29 August 2017

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:

- Each shareholder has the right to appoint up to three Directors (clause 7.1 of the Shareholders' Agreement);
- The Board elects the Chairman (clause 7.2 of the Shareholders' Agreement);
- A director is entitled to appoint an alternate to attend and vote in place of the appointor (clause 7.3 of the Shareholders' Agreement);
- The Board should comprise Directors with an appropriate range of qualifications and expertise.

Board meetings

The Board meets monthly (clause 7.2 of the Shareholders' Agreement) 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
I H Stone	Chairman, Director	3.5 years
G B Mather	Director	3.5 years
A J Pickworth	Director	3.5 years
B J Clark	Director	2.75 years
J W Smalberger	Director	2.75 years
T Griffiths	Director	1.75 years
T T Agnew	Alternate Director	2.75 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;

Board responsibilities (continued)

- 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, material key performance indicators.

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:

G B Mather	Chairman, Director	
I H Stone	Director	
A J Pickworth	Director	
D K McGown	Alternate Director	(resigned 25 November 2016)
T Griffiths	Director	(appointed 28 November 2016)

Due Diligence Committee

The Due Diligence Committee is responsible for ensuring that issues associated with the issuing of a prospectus have been properly considered and that the content of the prospectus issued by the company is appropriate for secured note fund raising. In addition, it reviews the content and disclosures within ASIC guidelines to ensure the public prospectus fairly represents the risks associated with its issue.

The members of the Due Diligence Committee during the year were:

I H Stone	Director	(resigned 17 October 2016)
B J Clark	Director	
G B Mather	Chairman, Director	
J W Smalberger	Director	
T Griffiths	Director	
B D Darling	MCFL Chief Executive Officer	
C Brucciani	Compliance Officer	
W Scott	RACF Financial Controller	(appointed 17 October 2016)

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 members of the ALCO during the year were:

J W Smalberger	Chairman, Director	
T Griffiths	Director	(appointed 28 November 2016)
D K McGown	Alternate Director	(resigned 25 November 2016)
B D Darling	MCFL Chief Executive Officer	
W Scott	RACF Financial Controller	
M Stewart	Company Secretary	(appointed 27 October 2016)

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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 1, which is not part of this financial report.

The financial report was authorised for issue in accordance with a resolution of the Directors on 29 August 2017. The Directors have the power to amend and reissue the financial report.

Motoring Club Finance Limited
Income statement
For the year ended 30 June 2017

	Notes	**2017** **$**	2016 $
Revenue			
Interest revenue		**1,424,481**	603,892
Interest expense		**(582,716)**	(197,601)
Net interest income		**841,765**	406,291
Other income	4	**211,543**	175,560
Expenses			
Management fees		**(1,002,022)**	(898,415)
Other operating expenses		**(199,440)**	(185,597)
Bad debts expense		**(24,876)**	(16,242)
Borrowing costs		**(58,865)**	(151,906)
Loss before income tax		**(231,895)**	(670,309)
Income tax (expense)/benefit	5	**(87,842)**	200,860
Loss from operations		**(319,737)**	(469,449)
Loss for the year		**(319,737)**	(469,449)

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

	Notes	**2017** **$**	2016 $
Loss for the year		**(319,737)**	(469,449)
Total comprehensive loss for the year is attributable to:			
Owners of Motoring Club Finance Limited		**(319,737)**	(469,449)
		(319,737)	(469,449)

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

	Notes	**2017** **$**	2016 $
ASSETS			
Cash and cash equivalents	7	**1,839,356**	4,646,600
Trade and other receivables	8	**2**	238,148
Loans and advances	10	**21,282,183**	13,226,210
Deferred tax assets	9	**364,731**	452,573
Prepayments	11	**9,484**	19,514
Total assets		**23,495,756**	18,583,045
LIABILITIES			
Trade and other payables	12	**469,198**	212,067
Interest bearing loans and borrowings	13	**17,403,396**	12,428,079
Total liabilities		**17,872,594**	12,640,146
Net assets		**5,623,162**	5,942,899
EQUITY			
Contributed equity	14	**7,000,002**	7,000,002
Accumulated losses	15	**(1,376,840)**	(1,057,103)
Total equity		**5,623,162**	5,942,899

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

	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2015	7,000,002	(587,654)	6,412,348
Loss for the year	-	(469,449)	(469,449)
Balance at 30 June 2016	**7,000,002**	**(1,057,103)**	**5,942,899**
Balance at 1 July 2016	7,000,002	(1,057,103)	5,942,899
Loss for the year	-	(319,737)	(319,737)
Balance at 30 June 2017	**7,000,002**	**(1,376,840)**	**5,623,162**

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

	Notes	2017 $	2016 $
Cash flows from operating activities			
Interest and other operating income from customers		**1,848,998**	500,494
Interest received from deposits		**56,042**	108,062
Interest payments		**(360,280)**	(147,043)
Cash payments to suppliers		**(1,192,365)**	(1,100,843)
Customer loans advanced		**(13,861,253)**	(13,932,096)
Customer loan repayments received		**5,726,296**	2,228,470
Proceeds from borrowings		**8,747,417**	5,428,079
Repayment of borrowings		**(5,772,099)**	-
Net cash outflow from operating activities	21	**(4,807,244)**	(6,914,877)
Cash flows from financing activities			
Proceeds from shareholders' loans		**2,000,000**	2,000,000
Net cash inflow from financing activities		**2,000,000**	2,000,000
Net decrease in cash and cash equivalents		**(2,807,244)**	(4,914,877)
Cash and cash equivalents at the beginning of the financial year		**4,646,600**	9,561,477
Cash and cash equivalents at end of year	7	**1,839,356**	4,646,600

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 2016:

- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*

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.

(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.

1 Summary of significant accounting policies (continued)

(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.

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.

1 Summary of significant accounting policies (continued)

(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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The financial difficulties of the debtor or default payments of debts more than 30 days overdue are considered objective evidence of impairment. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the allowance is recognised in the income statement.

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

(i) Specific Provisions

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.

(ii) Collective provision

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.

(i) Investments and other financial assets

Classification
The company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of selling the receivable.

(ii) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. During the year, the company held investments in this category.

(iii) Available-for-sale financial assets

Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. They are included in assets in the balance sheet.

Dividend income from available for sale financial assets is recognised in the income statement as part of revenue from continuing operations when the right to receive payments is established.

1 Summary of significant accounting policies (continued)

(i) Investments and other financial assets (continued)

(iii) Available-for-sale financial assets (continued)

Purchases and sales of investments are recognised on trade date, being the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement with other income or expenses in the period in which they arise.

Changes in the fair value of other monetary and non monetary securities classified as available for sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

During the year, the company did not hold any Available-for-sale financial assets.

The company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(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.

1 Summary of significant accounting policies (continued)

(l) Interest bearing loans and borrowings (continued)

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.

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 2017 reporting periods and have not yet been applied in the financial statements. The company's assessment of the impact of these new standards and interpretations is set out below.

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

1 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(i) AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement.*

Except for certain trade receivables, an entity 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.

Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.

The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.

The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

Management does not expect there to be a material impact on the company's financial statements and will complete an assessment in the coming months.

The new expected credit loss impairment model introduced by AASB 9 will result in changes in the calculation of impairment allowances due to:
- the requirement under AASB 9 to provide for all balances with credit exposure, not just those balances considered to be impaired; and
- the inclusion of metrics based on forward-looking information under AASB 9.

Although the application of the new impairment requirements to the loan portfolio will involve an increased use of judgement in considering factors affecting credit risk, the financial impact is expected to be immaterial.

This assessment, and any transition adjustment to retained earnings, is subject to the financial instruments held at the date of transition.

1 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(ii) AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue - Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

An entity recognises revenue in accordance with the core principle by applying the following steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

An initial assessment is being performed on existing revenue streams. The majority of the company's revenue is excluded from scope of the new standard, therefore, any impact on revenue and profit recognition is not expected to be material.

This assessment, and any transition adjustment to retained earnings, will be subject to the revenue streams existing at the date of transition.

(iii) AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] (effective 1 January 2017)

This Standard amends AASB 112 *Income Taxes* (July 2004) and AASB 112 *Income Taxes* (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

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

(iv) AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 (effective 1 January 2017)

This Standard amends AASB 107 *Statement of Cash Flows* (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

1 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(v) IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 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.

(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:

	2017	2016
	$	$
Financial assets		
Cash and cash equivalents	**1,839,356**	4,646,600
Trade and other receivables	**2**	238,148
Loans and advances	**21,282,183**	13,226,210
	23,121,541	18,110,958
Financial liabilities		
Trade and other payables	**469,198**	212,067
Borrowings	**17,403,396**	12,428,079
	17,872,594	12,640,146

2 Financial risk management (continued)

(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% (2016: -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 2017, if the interest rates had changed by -0.5% / +0.5% (2016: -0.5% / +0.5%) from the year end rates with all other variables held constant, post tax profit for the year would have been ($6,475)/$6,475 (2016: ($16,375)/$16,375) 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.

		-0.5%		+0.5%	
At 30 June 2017	Carrying amount $	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	1,839,356	(6,475)	(6,475)	6,475	6,475
Loans and advances	21,282,183	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	17,403,396	-	-	-	-
Total increase/ (decrease)		(6,475)	(6,475)	6,475	6,475

		-0.5%		+0.5%	
At 30 June 2016	Carrying amount $	Profit $	Equity $	Profit $	Equity $
Financial assets					
Cash and cash equivalents	4,646,600	(16,375)	(16,375)	16,375	16,375
Loans and advances	13,226,210	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	12,428,079	-	-	-	-
Total increase/ (decrease)		(16,375)	(16,375)	16,375	16,375

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

2 Financial risk management (continued)

(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 are assessed for credit worthiness when an application for loan/credit is received. The credit quality of a customer is assessed by taking into account their financial position, previous credit history and duration at their current place of employment and residence. Customers that do not satisfy the credit test are denied credit. Larger transactions over a specific threshold are referred to the Board for assessment and approval. At 30 June 2017, average historical default rates for Consumers were 0.26% (2016: 0.24%).

Cash and cash equivalents are limited to high credit quality financial institutions. All cash and cash equivalents balances on the Balance Sheet at 30 June 2017 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 2017	**Less than 3 months $**	**3 - 12 months $**	**Between 1 and 5 years $**	**Total $**
On balance sheet				
Borrowings	**2,116,455**	**4,059,590**	**11,227,351**	**17,403,396**
Trade and other payables	**469,198**	**-**	**-**	**469,198**
Total on balance sheet	**2,585,653**	**4,059,590**	**11,227,351**	**17,872,594**
Off balance sheet				
Interest on borrowings	**133,917**	**324,047**	**342,944**	**800,908**
Total off balance sheet	**133,917**	**324,047**	**342,944**	**800,908**

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

At 30 June 2016

On balance sheet

Borrowings	128,000	3,584,560	8,715,519	12,428,079
Trade and other payables	212,067	-	-	212,067
Total on balance sheet	340,067	3,584,560	8,715,519	12,640,146
Off balance sheet				
Interest on borrowings	62,193	291,499	637,230	990,922
Total off balance sheet	62,193	291,499	637,230	990,922

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.

Estimates are made by the company in respect of specific and collective provisions for impairment as described in notes 1(h) and 10.

4 Other income

	2017	2016
	$	$
Fees and commissions	**211,543**	175,560

5 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	Year ended	
	2017	2016
	$	$
Deferred tax	**87,842**	(200,860)
	87,842	(200,860)

(b) Numerical reconciliation of income tax benefit to deferred tax payable

Loss from operations before income tax benefit	**(231,895)**	(670,309)
Tax at the Australian tax rate of 30.0%	**(69,568)**	(201,093)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	**-**	233
Carried forward losses de-recognised	**157,410**	-
Income tax expense/(benefit)	**87,842**	(200,860)

(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:

	2017		2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Cash	**1,839,356**	**1,839,356**	4,646,600	4,646,600
Other receivables	**2**	**2**	238,146	238,146
Loans and advances - Consumer	**21,337,259**	**21,300,949**	13,258,048	13,301,980
	23,176,617	**23,140,307**	18,142,794	18,186,726

6 Fair values and interest rate risk (continued)

(a) Fair values (continued)

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 7.31% (2016: 7.31%).

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:			
2017	Floating interest rate $	1 year or less $	Over 1 to 5 years $	Non interest bearing $	Total $
Cash	1,839,356	-	-	-	1,839,356
Trade and other receivables	-	-	-	2	2
Loans and advances - Consumer	-	4,104,109	17,233,150	-	21,337,259
	1,839,356	4,104,109	17,233,150	2	23,176,617

Weighted average effective interest rate

Cash	1.25%
Loans and advances - Consumer	7.25%

		Fixed interest maturing in:			
2016	Floating interest rate $	1 year or less $	Over 1 to 5 years $	Non interest bearing $	Total $
Cash	4,646,600	-	-	-	4,646,600
Trade and other receivables	-	-	-	238,146	238,146
Loans and advances - Consumer	-	2,200,766	11,057,282	-	13,258,048
	4,646,600	2,200,766	11,057,282	238,146	18,142,794

Weighted average effective interest rate

Cash	1.50%
Loans and advances - Consumer	7.42%

7 Assets - Cash and cash equivalents

	2017 $	2016 $
Cash at bank and in hand	**1,839,356**	4,646,600
Balance as per cash flow statement	**1,839,356**	4,646,600

(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

	2017 $	2016 $
Other receivables	**-**	238,146
Amounts due from related parties	**2**	2
	2	238,148

(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

	2017 $	2016 $
The balance comprises temporary differences attributable to:		
Accrued expenses	**9,240**	11,550
Provision for doubtful debts	**16,522**	9,551
Taxed future revenue for accounting purposes	**37,186**	27,672
Expenses claimable over five years	**16,231**	18,242
Tax losses recognised	**285,552**	385,558
Net deferred tax assets	**364,731**	452,573
Movements:		
Charged/credited:		
Opening balance	**452,573**	251,713
- to profit or loss	**(87,842)**	200,860
Closing balance at 30 June	**364,731**	452,573
Deferred tax asset	**364,731**	452,573
Net deferred tax assets	**364,731**	452,573

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 years.

In addition to the above MCFL has unrecognised deferred tax assets of $524,399 (2016: nil).

10 Assets - Loans and Advances

	2017 $	2016 $
Term Loans	**21,338,177**	13,258,405
Unearned Income	**(919)**	(357)
Collective provision for impairment	**(55,075)**	(31,838)
Net loans and advances	**21,282,183**	13,226,210

10 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2017	2016
	$	$
Not longer than 3 months	**904,500**	464,456
Longer than 3 and not longer than 12 months	**3,199,609**	1,736,310
Longer than 1 and not longer than 5 years	**17,233,149**	10,978,638
Longer than 5 years	**-**	78,644
Collective provision for impairment	**(55,075)**	(31,838)
	21,282,183	13,226,210

(b) Impairment of loans and advances

As at 30 June 2017, receivables with a nominal value $24,876 (2016: $16,242) were impaired. It is expected that this will not be recovered and have hence been written off.

At 30 June 2017, receivables of $185,537 (2016: $109,011) 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:

	2017	2016
	$	$
Up to 3 months	**185,537**	108,800
3 to 6 months	**-**	211
Over 6 months	**-**	-
	185,537	109,011

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2017 if their terms were not negotiated was nil (2016: $74,259). 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 2017 was $179,351 (2016: $109,011).

	2017	2016
	$	$
Collective provision for impairment		
Opening balance	**(31,838)**	-
Doubtful debts expense	**(23,237)**	(31,838)
	(55,075)	(31,838)

11 Assets - Prepayments

	2017 $	2016 $
Prepayments	**9,484**	19,514

12 Liabilities - Trade and other payables

	2017 $	2016 $
Accrued Interest	**266,231**	33,779
Amounts due to related parties	**92,759**	102,775
Accrued expenses	**110,208**	75,513
	469,198	212,067

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

	2017 $	2016 $
Secured		
Investment notes	**8,403,396**	5,428,079
Total secured borrowings	**8,403,396**	5,428,079
Unsecured		
Shareholders loans	**9,000,000**	7,000,000
Total unsecured borrowings	**9,000,000**	7,000,000
Total borrowings	**17,403,396**	12,428,079

13 Liabilities - Interest bearing loans and borrowings (continued)

(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.

(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 $23,495,756 (2016: $18,583,045). 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 2017		At 30 June 2016	
	Carrying amount $	**Fair value $**	Carrying amount $	Fair value $
The Royal Automobile Association of South Australia Inc. loan	**4,500,000**	**4,556,364**	3,500,000	3,475,927
RACWA Holdings Pty Ltd loan	**4,500,000**	**4,556,364**	3,500,000	3,475,927
Investment notes	**8,403,396**	**8,419,738**	5,428,079	5,422,138
	17,403,396	**17,532,466**	12,428,079	12,373,992

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 2.80% to 3.25%.

(d) Investment notes

Investment notes and shareholders loans held at balance date have an effective weighted average interest rate of 3.07% (2016: 3.21%) paid quarterly or annually in arrears with average maturity of April 2018. Investment notes have terms ranging from 1 to 4 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.

13 Liabilities - Interest bearing loans and borrowings (continued)

(e) Interest rate risk exposures (continued)

2017	Fixed interest rate 1 year or less $	 Over 1 to 4 years $	Total $
Investment notes	6,176,045	2,227,351	8,403,396
Shareholders loans	-	9,000,000	9,000,000
	6,176,045	11,227,351	17,403,396
Weighted average interest rate			3.07%

2016	Fixed interest rate 1 year or less $	 Over 1 to 4 years $	Total $
Investment notes	3,712,560	1,715,519	5,428,079
Shareholders loans	-	7,000,000	7,000,000
	3,712,560	8,715,519	12,428,079
Weighted average interest rate			3.21%

14 Contributed equity

(a) Share capital

	2017 Shares	2016 Shares	**2017 $**	2016 $
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.

14 Contributed equity (continued)

(c) Capital risk management (continued)

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 23.9% which meets the requirement of 8%.

	2017	2016
	$	$
Total debt	**17,872,593**	12,640,146
Total equity	**5,623,163**	5,942,899
Net debt	**23,495,756**	18,583,045
Equity ratio	**23.9%**	32.0%

The decrease in the equity ratio during 2017 resulted primarily from an increase in borrowings during the year.

15 Accumulated losses

Accumulated losses

Movements in accumulated losses were as follows:

	2017	2016
	$	$
Balance 1 July	**(1,057,103)**	(587,654)
Net loss for the year	**(319,737)**	(469,449)
Balance 30 June	**(1,376,840)**	(1,057,103)

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

	2017	2016
	$	$
Audit services		
Audit and review of financial statements	**52,250**	55,000
Other assurance services	**10,000**	5,000
Total auditors' remuneration	**62,250**	60,000

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 due diligence reporting on acquisitions, 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 2017 (2016: 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.

	2017	2016
	$	$
Undrawn facilities by Motoring Club Finance customers	**-**	238,146

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:

19 Related party transactions (continued)

(b) Transactions with other related parties (continued)

	2017 $	2016 $
Provision of goods and services		
The Royal Automobile Association of South Australia Inc. management fee	**490,553**	555,643
RAC Finance Limited management fee	**511,468**	342,771
	1,002,021	898,414

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:

	2017 $	2016 $
Current payables (management fees)		
RAC Finance Ltd	**92,759**	56,472
The Royal Automobile Association of South Australia Inc.	**-**	46,303
	92,759	102,775

(d) Loans from parent entities

	2017 $	2016 $
Loans from RACWA Holdings Pty Ltd and The Royal Automotive Association of South Australia Inc. (ultimate Australian parent entities)		
Beginning of the year	**7,000,000**	5,000,911
Loans advanced from RACWA Holdings Pty Ltd	**1,000,000**	1,000,000
Loans advanced from The Royal Automobile Association of South Australia Inc.	**1,000,000**	1,000,000
Interest charged	**235,027**	163,707
Interest paid	**(115,816)**	(164,618)
End of year	**9,119,211**	7,000,000

(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.

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 loss after income tax to net cash outflow from operating activities

	2017	2016
	$	$
Loss for the year	**(319,737)**	(469,449)
Doubtful debts receivable	**23,237**	31,838
Bad debts written off	**24,876**	16,242
Change in operating assets and liabilities:		
Decrease/(increase) in trade debtors	**248,176**	(190,410)
Increase in accrued interest payable	**222,435**	50,558
Increase in trade and other payables	**34,696**	43,887
Increase in customer loans advanced	**(8,104,087)**	(11,624,762)
Increase in borrowings	**2,975,318**	5,428,079
Decrease/(increase) in deferred tax assets	**87,842**	(200,860)
Net cash outflow from operating activities	**(4,807,244)**	(6,914,877)

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 2017 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

I H Stone
Director

Adelaide, S.A.
29 August 2017

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

As lead auditor for the audit of Motoring Club Finance Limited for the financial year ended 30 June 2017, 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

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F Drummond
Partner
29 August 2017

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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 2017, the income statement, 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 2017 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 comprises the Corporate Governance Statement and the Director's 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.

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.

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F Drummond
Partner
Perth
29 August 2017