

Motoring Club Finance Limited

ABN 56 167 246 899

Annual report for the year ended 30 June 2016

Motoring Club Finance Limited ABN 56 167 246 899
Annual report - 30 June 2016

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Directors' report

Your Directors present their report on the company for the year ended 30 June 2016.

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 (Chairman)
T T Agnew (Alternate Director)
B J Clark
D K McGown (Alternate Director)
A J Pickworth
M A Stewart (Company Secretary)
G B Mather
J W Smalberger
T B Griffiths (appointed 24 September 2015)
P D Hurcombe (resigned 23 September 2015)

Principal activities

Motoring Club Finance Limited 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. Significant investment continues in developing the skills of the sales and distribution network to position the company for future growth.

The loss from ordinary activities after income tax amounted to \$469,449 (2015: \$587,654).

Revenue and fee income totalled \$779,452 (2015: \$127,050).

Loans and advances for the year were \$13,932,096 (2015: \$1,726,712).

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 other 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 2016. The independence declaration can be found on page 40.

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



I H Stone
Director

Adelaide, S.A.
23 August 2016

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	2.5 years
G B Mather	Director	2.5 years
A J Pickworth	Director	2.5 years
B J Clark	Director	1.75 years
J W Smalberger	Director	1.75 years
T Griffiths	Director	0.75 years
T T Agnew	Alternate Director	1.75 years
D K McGown	Alternate Director	1.75 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	(appointed 24 September 2015)
P D Hurcombe	Director	(resigned 23 September 2015)

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	Chairman, Director	
P D Hurcombe	Director	(resigned 23 September 2015)
B J Clark	Director	
G B Mather	Director	
A J Pickworth	Director	
J W Smalberger	Director	
T Griffiths	Director	(appointed 24 September 2015)
B D Darling	MCFL Chief Executive Officer	
C Brucciani	Compliance Officer	

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	
P D Hurcombe	Director	(resigned 23 September 2015)
D K McGown	Alternate Director	(appointed 24 September 2015)
B D Darling	MCFL Chief Executive Officer	
W W Scott	RAC Financial Controller	(appointed 11 February 2016)
A M Saunders	RAC Financial Controller	(resigned 27 November 2015)

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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 23 August 2016. The Directors have the power to amend and reissue the financial report.

Motoring Club Finance Limited
Income statement
For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
Revenue			
Interest revenue		603,892	107,783
Interest expense		(197,601)	(911)
Net Interest income		406,291	106,872
 Other income	 4	 175,560	 19,267
 Expenses			
Management fees		(898,415)	(586,476)
Other operating expenses		(185,597)	(379,030)
Bad debts expense		(16,242)	-
Borrowing costs		(151,906)	-
Loss before income tax		(670,309)	(839,367)
 Income tax benefit	 5	 200,860	 251,713
Loss from operations		(469,449)	(587,654)
 Loss for the year		 (469,449)	 (587,654)

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 2016

	2016	2015
Notes	\$	\$
Loss for the year	<u>(469,449)</u>	<u>(587,654)</u>
Total comprehensive loss for the year is attributable to:		
Owners of Motoring Club Finance Limited	<u>(469,449)</u>	<u>(587,654)</u>
	<u>(469,449)</u>	<u>(587,654)</u>

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 2016

	Notes	2016 \$	2015 \$
ASSETS			
Cash and cash equivalents	7	4,646,600	9,561,477
Trade and other receivables	8	238,148	67,252
Loans and advances	10	13,226,210	1,649,526
Deferred tax assets	9	452,573	251,713
Prepayments	11	19,514	-
Total assets		18,583,045	11,529,968
LIABILITIES			
Trade and other payables	12	212,067	117,620
Interest bearing loans and borrowings	13	12,428,079	5,000,000
Total liabilities		12,640,146	5,117,620
Net assets		5,942,899	6,412,348
EQUITY			
Contributed equity	14	7,000,002	7,000,002
Retained earnings	15(a)	(1,057,103)	(587,654)
Total equity		5,942,899	6,412,348

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 2016

	Notes	Contributed equity \$	Retained earnings \$	Total equity \$
Balance at 1 July 2014		<u>2</u>	<u>-</u>	<u>2</u>
Contributions of equity	14	7,000,000	-	7,000,000
Loss for the year		<u>-</u>	<u>(587,654)</u>	<u>(587,654)</u>
		<u>7,000,000</u>	<u>(587,654)</u>	<u>6,412,346</u>
Balance at 30 June 2015		<u>7,000,002</u>	<u>(587,654)</u>	<u>6,412,348</u>
Balance at 1 July 2015		7,000,002	(587,654)	6,412,348
Loss for the year		<u>-</u>	<u>(469,449)</u>	<u>(469,449)</u>
Balance at 30 June 2016		<u>7,000,002</u>	<u>(1,057,103)</u>	<u>5,942,899</u>

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 2016

	Notes	2016 \$	2015 \$
Cash flows from operating activities			
Interest and other operating income from customers		500,494	59,800
Interest received from deposits		108,062	-
Interest payments		(147,043)	-
Cash payments to suppliers		(1,100,843)	(848,796)
Customer loans advanced		(13,932,096)	(1,726,712)
Customer loan repayments received		2,228,470	77,185
Proceeds from borrowings		5,428,079	-
Net cash outflow from operating activities	21	<u>(6,914,877)</u>	<u>(2,438,523)</u>
Cash flows from financing activities			
Proceeds from issues of shares		-	7,000,000
Proceeds from shareholders loans		2,000,000	5,000,000
Net cash inflow from financing activities		<u>2,000,000</u>	<u>12,000,000</u>
Net (decrease) / increase in cash and cash equivalents		(4,914,877)	9,561,477
Cash and cash equivalents at the beginning of the financial year		<u>9,561,477</u>	-
Cash and cash equivalents at end of year	7	<u>4,646,600</u>	<u>9,561,477</u>

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

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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 2015:

- *AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments*
- *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

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.

(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:

1 Summary of significant accounting policies (continued)

(c) Revenue recognition (continued)

(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 2016 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 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.

Classification and measurement

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.

The main changes are described below:

Financial assets

a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Financial liabilities

Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.

Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:

The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
The remaining change is presented in profit or loss

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.

1 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

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

Impairment

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting

Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 - Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

The company is currently in the process of assessing the impact of the new standard.

(ii) AASB 1057 Application of Australian Accounting Standards (effective from 1 January 2016)

This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.

The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.

The new standard is 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)

(iii) AASB 15 Revenue from Contracts with Customers (effective from 1 January 2017)

AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, Interpretation 18 *Transfers of Assets from Customers*, Interpretation 131 *Revenue-Barter Transactions Involving Advertising Services* and Interpretation 1042 *Subscriber Acquisition Costs in the Telecommunications Industry*). AASB 15 incorporates the requirements of IFRS 15 *Revenue from Contracts with Customers* issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). 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 the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- (a) Step 1: Identify the contract(s) with a customer
- (b) Step 2: Identify the performance obligations in the contract
- (c) Step 3: Determine the transaction price
- (d) Step 4: Allocate the transaction price to the performance obligations in the contract
- (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.

AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

AASB 2016-3 Amendments to Australian Accounting Standards - Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.

The company is currently in the process of assessing the impact of the new standard.

1 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

(iv) AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle (effective from 1 January 2016)

The subjects of the principal amendments to the Standards are set out below:

AASB 5 Non-current Assets Held for Sale and Discontinued Operations:

- Changes in methods of disposal - where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27-29 to account for this change.

AASB 7 Financial Instruments: Disclosures:

- Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E-42H of AASB 7.
- Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure-Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.

AASB 119 Employee Benefits:

- Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

AASB 134 Interim Financial Reporting:

- Disclosure of information 'elsewhere in the interim financial report' -amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

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

(v) AASB 2015-2 Amendments to Australian Accounting Standards & Disclosure Initiative: Amendments to AASB 101 (effective from 1 January 2016)

The Standard makes amendments to AASB 101 *Presentation of Financial Statements* arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

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)

(vi) 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.

(vii) 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.

(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:

2 Financial risk management (continued)

	2016 \$	2015 \$
Financial assets		
Cash and cash equivalents	4,646,600	9,561,477
Trade and other receivables	238,148	67,252
Loans and advances	13,226,210	1,849,526
	<u>18,110,958</u>	<u>11,278,255</u>
Financial liabilities		
Trade and other payables	212,067	117,620
Borrowings	12,428,079	5,000,000
	<u>12,640,146</u>	<u>5,117,620</u>

(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% (2015: -0.5% / +1.0%) 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 2016, if the interest rates had changed by -0.5% / +0.5% (2015: -0.5% / +1.0%) from the year end rates with all other variables held constant, post tax profit for the year would have been (\$16,375)/\$16,375 (2015: (\$16,143)/\$32,286) 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%	
	Carrying amount \$	Profit \$	Equity \$	Profit \$	Equity \$
At 30 June 2016					
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)		<u>(16,375)</u>	<u>(16,375)</u>	<u>16,375</u>	<u>16,375</u>

2 Financial risk management (continued)

(a) Market risk (continued)

(ii) Summarised sensitivity analysis (continued)

		-0.5%		+1%	
	Carrying amount \$	Profit \$	Equity \$	Profit \$	Equity \$
At 30 June 2015					
Financial assets					
Cash and cash equivalents	4,581,217	(16,143)	(16,143)	32,286	32,286
Loans and advances	1,649,526	-	-	-	-
Financial liabilities					
Interest bearing loans and borrowings	5,000,000	-	-	-	-
Total Increase/ (decrease)		(16,143)	(16,143)	32,286	32,286

Movement in profits are due to higher or lower interest costs from variable rate debt and 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 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 2016, average historical default rates for Consumers were 0.24% (2015: 0.00%).

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 2016 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.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

	Less than 3 months \$	3 - 12 months \$	Between 1 and 5 years \$	Total \$
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	<u>340,067</u>	<u>3,584,560</u>	<u>8,715,519</u>	<u>12,640,146</u>
Off balance sheet				
Interest on borrowings	62,193	291,499	637,230	990,922
Total off balance sheet	<u>62,193</u>	<u>291,499</u>	<u>637,230</u>	<u>990,922</u>
At 30 June 2015				
On balance sheet				
Borrowings	-	-	5,000,000	5,000,000
Trade and other payables	117,620	-	-	117,620
Total on balance sheet	<u>117,620</u>	<u>-</u>	<u>5,000,000</u>	<u>5,117,620</u>
Off balance sheet				
Interest on borrowings	50,411	149,589	580,000	780,000
Total off balance sheet	<u>50,411</u>	<u>149,589</u>	<u>580,000</u>	<u>780,000</u>

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 as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. The company has not made any other estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Other income

	2016 \$	2015 \$
Fees and commissions	<u>175,560</u>	<u>19,267</u>

5 Income tax expense/(benefit)

(a) Income tax expense/(benefit)

	Year ended 2016 \$	2015 \$
Deferred tax	<u>(200,860)</u>	<u>(251,713)</u>
	<u>(200,860)</u>	<u>(251,713)</u>

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

Loss from operations before income tax benefit	(670,309)	(839,367)
Tax at the Australian tax rate of 30.0%	(201,093)	(251,810)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowable for income tax purposes	233	97
Income tax benefit	<u>(200,860)</u>	<u>(251,713)</u>

(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:

	2016		2015	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Cash	4,646,600	4,646,600	9,561,477	9,561,477
Other receivables	238,146	238,146	67,250	67,250
Loans and advances - Consumer	13,258,048	13,301,980	1,649,526	1,651,217
	<u>18,142,794</u>	<u>18,186,726</u>	<u>11,278,253</u>	<u>11,279,944</u>

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%.

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.

2016	Floating interest rate \$	Fixed interest maturing in:		Non interest bearing \$	Total \$
		1 year or less \$	Over 1 to 5 years \$		
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
	<u>4,646,600</u>	<u>2,200,766</u>	<u>11,057,282</u>	<u>238,146</u>	<u>18,142,794</u>

Weighted average effective interest rate

Cash	1.50%
Loans and advances - Consumer	7.42%

2015	Floating interest rate \$	Fixed interest maturing in:		Non interest bearing \$	Total \$
		1 year or less \$	Over 1 to 5 years \$		
Cash	4,561,217	5,000,260	-	-	9,561,477
Trade and other receivables	-	-	-	67,250	67,250
Loans and advances - Consumer	-	664,074	985,452	-	1,649,526
	<u>4,561,217</u>	<u>5,664,334</u>	<u>985,452</u>	<u>67,250</u>	<u>11,278,253</u>

Weighted average effective interest rate

Cash	1.75%
Loans and advances - Consumer	8.79%

7 Assets - Cash and cash equivalents

	2016	2015
	\$	\$
Cash at bank and in hand	4,646,600	9,561,477
Balance as per cash flow statement	4,646,600	9,561,477

(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

	2016	2015
	\$	\$
Other receivables	238,146	67,250
Amounts due from related parties	2	2
	238,148	67,252

(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

	2016 \$	2015 \$
The balance comprises temporary differences attributable to:		
Accrued expenses	11,550	7,500
Provision for doubtful debts	9,551	-
Taxed future revenue for accounting purposes	27,672	4,289
Expenses claimable over five years	18,242	21,581
Tax losses	385,558	218,343
Net deferred tax assets	<u>452,573</u>	<u>251,713</u>
Movements:		
Charged/credited:		
Opening balance	251,713	-
- to profit or loss	200,860	251,713
Closing balance at 30 June	<u>452,573</u>	<u>251,713</u>
 Deferred tax asset	 <u>452,573</u>	 <u>251,713</u>
Net deferred tax assets	<u>452,573</u>	<u>251,713</u>

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.

10 Assets - Loans and Advances

	2016 \$	2015 \$
Term Loans	13,258,405	1,649,526
Unearned Income	(357)	-
Collective provision for impairment	(31,838)	-
Net loans and advances	<u>13,226,210</u>	<u>1,649,526</u>

10 Assets - Loans and Advances (continued)

(a) Maturity analysis

	2016 \$	2015 \$
Not longer than 3 months	464,456	149,704
Longer than 3 and not longer than 12 months	1,736,310	514,370
Longer than 1 and not longer than 5 years	10,978,638	985,452
Longer than 5 years	78,844	-
Collective provision for impairment	(31,838)	-
	<u>13,226,210</u>	<u>1,649,526</u>

(b) Impairment of loans and advances

As at 30 June 2016, receivables with a nominal value \$16,242 (2015: nil) were impaired. It is expected that this will not be recovered.

At 30 June 2016, receivables of \$109,011 (2015: nil) 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:

	2016 \$	2015 \$
Up to 3 months	108,800	-
3 to 6 months	211	-
Over 6 months	-	-
	<u>109,011</u>	<u>-</u>

The carrying amount of financial assets that would otherwise be past due or impaired at 30 June 2016 if their terms were not negotiated was \$74,259 (2015: nil). 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 2016 was \$109,011 (2015: nil).

	2016 \$	2015 \$
<i>Collective provision for impairment</i>		
Opening balance	-	-
Doubtful debts expense	(31,838)	-
	<u>(31,838)</u>	<u>-</u>

11 Assets - Prepayments

	2016 \$	2015 \$
Prepayments	<u>19,514</u>	<u>-</u>

12 Liabilities - Trade and other payables

	2016 \$	2015 \$
Accrued Interest	33,781	911
Amounts due to related parties	102,775	85,086
Accrued expenses	<u>75,511</u>	<u>31,623</u>
	<u>212,067</u>	<u>117,620</u>

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

	2016 \$	2015 \$
Secured		
Investment notes	5,428,079	-
Total secured borrowings	<u>5,428,079</u>	<u>-</u>
Unsecured		
Shareholders loans	7,000,000	5,000,000
Total unsecured borrowings	<u>7,000,000</u>	<u>5,000,000</u>
Total borrowings	<u>12,428,079</u>	<u>5,000,000</u>

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 entity.

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 \$18,583,045 (2015: \$11,529,968). 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 2016		At 30 June 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
The Royal Automobile Association of South Australia Inc. loan	3,500,000	3,475,927	2,500,000	2,498,359
RACWA Holdings Pty Ltd loan	3,500,000	3,475,927	2,500,000	2,498,359
Investment notes	5,428,079	5,422,138	-	-
	<u>12,428,079</u>	<u>12,373,992</u>	<u>5,000,000</u>	<u>4,996,718</u>

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 3.30% to 3.60%.

(d) Investment notes

Investment notes and shareholders loans held at balance date have an effective weighted average interest rate of 3.21% (2015: 1.90%) paid quarterly or annually in arrears with average maturity of October 2017. 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)

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
	<u>3,712,560</u>	<u>8,715,519</u>	<u>12,428,079</u>
Weighted average interest rate			<u>3.21%</u>
2015	Fixed interest rate 1 year or less \$	Over 1 to 4 years \$	Total \$
Investment notes	-	-	-
Shareholders loans	-	5,000,000	5,000,000
	<u>-</u>	<u>5,000,000</u>	<u>5,000,000</u>
Weighted average interest rate			<u>1.90%</u>

14 Contributed equity

(a) Share capital

	2016 Shares	2015 Shares	2016 \$	2015 \$
Ordinary shares				
Issued and paid up capital	<u>7,000,002</u>	<u>7,000,002</u>	<u>7,000,002</u>	<u>7,000,002</u>

(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.

14 Contributed equity (continued)

(c) Capital risk management (continued)

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 32% which meets the requirement of 8%.

	2016 \$	2015 \$
Total debt	12,640,146	5,117,620
Total equity	<u>5,942,899</u>	<u>6,412,348</u>
Net debt	<u>18,583,045</u>	<u>11,529,968</u>
 Equity ratio	 32.0%	 57.0%

The decrease in the equity ratio during 2016 resulted primarily from an increase in borrowings during the year.

15 Reserves and accumulated losses

(a) Accumulated losses

Movements in retained earnings were as follows:

	2016 \$	2015 \$
Balance 1 July	(587,654)	-
Net loss for the year	<u>(469,449)</u>	<u>(587,654)</u>
Balance 30 June	<u>(1,057,103)</u>	<u>(587,654)</u>

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

	2016 \$	2015 \$
<i>Audit services</i>		
Audit and review of financial statements	<u>60,000</u>	<u>25,000</u>
Total auditors' remuneration	<u>60,000</u>	<u>25,000</u>

16 Remuneration of auditors (continued)

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 2016 (2015: 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.

	2016 \$	2015 \$
Undrawn facilities by Motoring Club Finance customers	285,625	67,250

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:

	2016 \$	2015 \$
<i>Provision of goods and services</i>		
The Royal Automobile Association of South Australia Inc. management fee	555,643	452,654
RAC Finance Limited management fee	342,771	133,822
	<u>898,414</u>	<u>586,476</u>

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

19 Related party transactions (continued)

(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:

	2016 \$	2015 \$
<i>Current payables (management fees)</i>		
RAC Finance Ltd	56,472	28,505
The Royal Automobile Association of South Australia Inc.	46,303	56,581
	<u>102,775</u>	<u>85,086</u>

(d) Loans from parent entity

	2016 \$	2015 \$
<i>Loans from RACWA Holdings Pty Ltd and The Royal Automotive Association of South Australia Inc. (ultimate Australian parent entities)</i>		
Beginning of the year	5,000,911	-
Loans advanced from RACWA Holdings Pty Ltd	1,000,000	2,500,000
Loans advanced from The Royal Automobile Association of South Australia Inc.	1,000,000	2,500,000
Interest charged	163,707	911
Interest paid	(164,618)	-
End of year	<u>7,000,000</u>	<u>5,000,911</u>

(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 entity.

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

	2016 \$	2015 \$
Loss for the year	(469,449)	(587,654)
Doubtful debts receivable	31,838	-
Bad debts written off	16,242	-
Change in operating assets and liabilities:		
Increase in trade debtors	(190,410)	(67,250)
Increase in accrued interest payable	50,558	911
Increase in trade and other payables	43,887	116,709
Increase in customer loans advanced	(11,624,762)	(1,649,526)
Increase in borrowings	5,428,079	-
Increase in deferred tax assets	(200,860)	(251,713)
Net cash outflow from operating activities	<u>(6,914,877)</u>	<u>(2,438,523)</u>

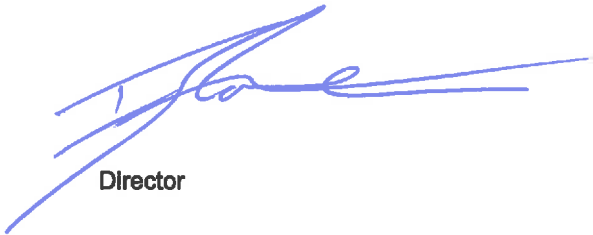
**Motoring Club Finance Limited
Directors' declaration
30 June 2016**

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 2016 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

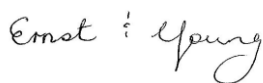
I H Stone
Director

Adelaide, S.A.
23 August 2016

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 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



F Drummond
Partner
23 August 2016

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

We have audited the accompanying financial report of Motoring Club Finance Limited, which comprises the balance sheet as at 30 June 2016, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

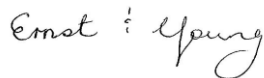
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Motoring Club Finance Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



Ernst & Young



F Drummond
Partner
Perth
23 August 2016