Motoring Club Finance Limited

ABN 56 167 246 899

Interim report
for the half-year ended 31 December 2018

Motoring Club Finance Limited ABN 56 167 246 899
Interim report - 31 December 2018

Contents

Directors' report

Your Directors present their report on the company for the half-year ended 31 December 2018.

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:

A J Pickworth
D Parr (appointed 1 December 2018)
G B Mather
I H Stone (resigned 1 December 2018)
T B Griffiths
T R Page (Company Secretary)
T T Agnew (Alternate Director) (resigned 28 September 2018)

Review of operations

The entity's profit after tax for the half year ended 31 December 2018 was $112,761 (2017: $258,062).

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

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

Market and economic conditions were stable during the first half of the current financial year, with the company's focus to maintain liquidity and a conservative credit risk profile.

Auditor's independence declaration

Ernst & Young Australia, our auditors, have provided a written independence declaration to the Directors in relation to their review of the financial report for the half year ended 31 December 2018. The independence declaration can be found on page 15.

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

T B Griffiths
Director

Adelaide, S.A.
18 February 2019

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Motoring Club Finance Limited
Income statement
For the half-year 31 December 2018

	Notes	31 December 2018 $	31 December 2017 $
Revenue			
Interest revenue		**499,235**	763,567
Interest expense		**(150,689)**	(230,906)
Net interest income		**348,546**	532,661
Other income	2	**13,263**	21,805
Expenses			
Management fees		**(76,685)**	(109,554)
Other operating expenses		**(48,731)**	(89,050)
Bad debts expense		**(37,151)**	(6,796)
Borrowing costs		**(16,993)**	(25,081)
Profit before income tax		**182,249**	323,985
Income tax expense		**(69,488)**	(65,923)
Profit from continuing operations		**112,761**	258,062
Profit for the period		**112,761**	258,062
Profit is attributable to:			
Owners of Motoring Club Finance Limited		**112,761**	258,062

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

Motoring Club Finance Limited
Statement of comprehensive income
For the half-year 31 December 2018

	31 December 2018 $	31 December 2017 $
Profit for the period	**112,761**	258,062
Total comprehensive profit for the period is attributable to:		
Owners of Motoring Club Finance Limited	**112,761**	258,062
	112,761	258,062

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

Motoring Club Finance Limited
Balance sheet
As at 31 December 2018

	Notes	31 December 2018 $	30 June 2018 $
ASSETS			
Cash and cash equivalents	4	**3,086,510**	3,170,210
Trade and other receivables		**246**	2
Loans and advances	5	**11,110,247**	14,130,893
Deferred tax assets		**132,305**	194,897
Prepayments		**30,137**	10,186
Total assets		**14,359,445**	17,506,188
LIABILITIES			
Trade and other payables	6	**108,411**	231,387
Interest bearing loans and borrowings	7	**8,139,826**	11,260,269
Total liabilities		**8,248,237**	11,491,656
Net assets		**6,111,208**	6,014,532
EQUITY			
Contributed equity	8	**7,000,002**	7,000,002
Accumulated losses	9	**(888,794)**	(985,470)
Total equity		**6,111,208**	6,014,532

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

Motoring Club Finance Limited
Statement of changes in equity
For the half-year 31 December 2018

	Contributed equity $	Retained earnings $	Total equity $
Balance at 1 July 2017	7,000,002	(1,376,840)	5,623,162
Profit for the period	-	258,062	258,062
Balance at 31 December 2017	**7,000,002**	**(1,118,778)**	**5,881,224**
Balance at 1 July 2018	7,000,002	(985,470)	6,014,532
Profit for the period	-	112,761	112,761
Adoption of new accounting standard*	-	(16,085)	(16,085)
	-	96,676	96,676
Balance at 31 December 2018	**7,000,002**	**(888,794)**	**6,111,208**

* Refer to note 1(c)(i)

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 half-year 31 December 2018

	Notes	31 December 2018 $	31 December 2017 $
Cash flows from operating activities			
Interest and other operating income from customers		**466,865**	732,760
Interest received from deposits		**22,257**	8,769
Interest payments		**(292,204)**	(488,696)
Recoveries on loans previously written off		**978**	680
Cash payments to suppliers		**(146,023)**	(105,071)
Customer loan repayments received		**2,984,870**	3,709,907
Repayment of borrowings		**(1,120,443)**	(4,632,671)
Net cash inflow/(outflow) from operating activities	12	**1,916,300**	(774,322)
Cash flows from financing activities			
Repayment of shareholders loans	7	**(2,000,000)**	-
Net decrease in cash and cash equivalents		**(83,700)**	(774,322)
Cash and cash equivalents at the beginning of the financial year		**3,170,210**	1,839,356
Cash and cash equivalents at end of period		**3,086,510**	1,065,034

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The interim financial statements are for the entity Motoring Club Finance Limited.

(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 (interim report)

This condensed interim report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the June annual report and any public announcements made by Motoring Club Finance Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(c) Changes in Accounting Policy

Since 1 July 2018, the company has adopted all applicable new Accounting Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2018. The adoption of the new Accounting Standards and Interpretations had no material effect on the financial position or performance of the company.

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

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

The effect of adopting AASB 9 is as follows:

The adoption of AASB 9 has not had a significant impact on the statement of financial position and equity. The adoption of the ECL requirements of AASB 9 resulted in an increase in the loss allowance resulting in a negative impact on equity.

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

1 Summary of significant accounting policies (continued)

(c) Changes in Accounting Policy (continued)

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

Classification and measurement
The application of the classification and measurement requirements of AASB 9 has not had a significant impact on the company's balance sheet or equity. Loans and advances are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Therefore, reclassification for these instruments is not required.

The impairment provision has been reclassified as an expected credit loss (ECL) upon initial application, however the impairment provision in the comparative information for each of the primary financial statements follows the classification and measurement requirements of AASB 139.

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

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

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

Other adjustments
On adoption of AASB 9, other items of the primary financial statements such as deferred taxes have been adjusted as necessary.

2 Other income

	31 December 2018 $	31 December 2017 $
Fees and commissions	**12,285**	21,125
Bad debts recovered	**978**	680
	13,263	21,805

3 Fair Values

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

	31 December 2018		30 June 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Cash	3,086,510	3,086,510	3,170,210	3,170,210
Other Receivables	246	246	2	2
Loans and advances - Consumer	11,199,916	11,257,056	14,199,782	14,267,287
	14,286,672	14,343,812	17,369,994	17,437,499

The fair values of other receivables are estimated using discounted cash flow analysis, based on current lending rate for similar types of lending arrangements of 6.90%.

For the purposes of fair value disclosure under AASB 13 *Fair Value Measurement*, 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.

4 Assets - Cash and cash equivalents

	31 December 2018 $	30 June 2018 $
Cash at bank and in hand	**3,086,510**	3,170,210
Balance as per cash flow statement	**3,086,510**	3,170,210

5 Assets - Loans and Advances

	31 December 2018 $	30 June 2018 $
Term Loans	**11,199,916**	14,202,925
Specific provision for impairment	-	(25,000)
Collective provision for impairment	-	(43,889)
Expected credit loss*	**(89,669)**	-
Net loans and advances	**11,110,247**	14,134,036

* Refer to note 1(c)(i)

6 Liabilities - Trade and other payables

	31 December 2018 $	30 June 2018 $
Accrued Interest	**21,617**	153,756
Amounts due to related parties	**8,978**	18,354
Accrued expenses	**51,494**	58,241
Other payables	**26,322**	1,036
	108,411	231,387

The carrying amount of trade and other payables approximates its fair value and is non interest bearing. Repayment is expected to occur within 30 days.

7 Liabilities - Interest bearing loans and borrowings

	At 31 December 2018 Carrying amount $	Fair value $	At 30 June 2018 Carrying amount $	Fair value $
The Royal Automobile Association of South Australia Inc. loan (a)	**3,500,000**	**3,498,057**	4,500,000	4,487,220
RACWA Holdings Pty Ltd loan (a)	**3,500,000**	**3,498,057**	4,500,000	4,487,220
Investment notes (b)	**1,139,826**	**1,150,699**	2,260,269	2,274,371
	8,139,826	**8,146,813**	11,260,269	11,248,811

None of the classes are readily traded on organised markets in standardised form.

(a) The fair values of shareholders loans are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.80% to 2.90%.

(b) The fair values of investment notes are estimated using discounted cash flow analysis, based on current borrowing rates for similar types of borrowing arrangements ranging from 2.80% to 2.90%.

For the purposes of fair value disclosure under AASB 13 *Fair Value Measurement*, the investment notes would be categorised as a level 2 liability where the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

8 Contributed equity

(a) Share capital

	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 $	30 June 2018 $
Ordinary shares				
Issued and paid up capital	**7,000,002**	7,000,002	**7,000,002**	7,000,002

9 Accumulated losses

Movements in accumulated losses were as follows:

	Notes	31 December 2018 $	30 June 2018 $
Balance 1 July		**(985,470)**	(1,376,840)
Net profit for the period		**112,761**	391,370
Adoption of new accounting standard*		**(16,085)**	-
Balance 30 June		**(888,794)**	(985,470)

* Refer to note 1(c)(i)

10 Contingencies

(a) Contingent liabilities

The company had no contingent liabilities as at 31 December 2018 (2017: nil).

11 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to period 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 or economic entity in subsequent financial periods.

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

	31 December 2018 $	31 December 2017 $
Profit for the year	**112,761**	258,062
Doubtful debts receivable	**(2,204)**	22,731
Bad debts written off	**37,151**	6,796
Change in operating assets and liabilities:		
Increase in other assets	**(20,195)**	(18,261)
Decrease in accrued interest payable	**(141,516)**	(257,790)
Increase in trade and other payables	**18,542**	114,144
Decrease in customer loans advanced	**2,962,716**	3,666,744
Decrease in borrowings	**(1,120,443)**	(4,632,671)
Decrease in deferred tax assets	**69,488**	65,923
Net cash inflow/(outflow) from operating activities	**1,916,300**	(774,322)

In the Directors' opinion:

(a) the interim financial statements and notes set out on pages 2 to 13 are in accordance with the *Corporations Act 2001*, including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date, and

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

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

T.B. G

T B Griffiths
Director

Adelaide, S.A.
18 February 2019

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Perth WA 6000 Australia
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Auditor's Independence Declaration to the Directors of Motoring Club Finance Limited

As lead auditor for the review of Motoring Club Finance Limited for the half-year ended 31 December 2018, 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 review; and

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

Ernst & Young

Ernst & Young

F Drummond
Partner
18 February 2019

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Independent Auditor's Review Report to the Members of Motoring Club Finance Limited Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Motoring Club Finance Limited (the Company), which comprises the Balance Sheet as at 31 December 2018, income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Fiona Drummond
Partner
Perth
18 February 2019