

Diversifying for Growth

2015/16

ANNUAL
REPORT



2015/16 At a Glance

Members

\$134 million

of value distributed through discounts, benefits, community programs and cheaper prices



878,664

roadside assistance calls answered within an average 20 seconds



\$1.6 million

RACQ Travel rebates to members in credit card fees and travel insurance commissions



160,000+

RACQ batteries expertly installed, and RACQ autoglass fits or repairs 60,000 windscreens



\$68.5 million

RACQ Insurance premium discounts delivered



20,000+

motoring enquiries answered



99.5%

satisfaction with RACQ Roadside Assistance



Community

\$5.25 million

in sponsorship provided to Queensland's rescue helicopters, which flew 2000+ mercy missions



10,000+

participants in RACQ-sponsored International Women's Day Fun Run



28,412

primary and high school students learnt road safety with RACQ



\$451,002

distributed by RACQ Foundation to Queensland community groups with a further \$199,455 approved for drought relief



2700

competitors take part in RACQ-sponsored North Queensland Games



6200+

older drivers kept safe on the roads through years ahead presentations



10,000+

enthusiasts attended RACQ MotorFest, Queensland's largest car show



Our Vision

RACQ – a must for all Queenslanders.

Our Mission

By 2030, RACQ will be a multi-dimensional membership organisation offering Queenslanders multiple reasons for joining and multiple ways to benefit from being part of the RACQ community.

Our Purpose

We exist for our members and judge everything we do by how well we serve their needs.

Our Philosophy

We are proud to be a mutual, operated for the benefit of our owners, the members of RACQ. We combine the mind of a business with the heart of a club.

Our Values



Generosity of spirit



Being of service



Inspiring trust



Dedication to excellence

2015/16 Highlights

Membership topped

1.6 million

One in three Queenslanders now belong to state's largest club

RACQ and QT Mutual Bank

announce merger plans

Online sales up 27% to

\$97.7 million

More than **61%**

of Queensland households have an RACQ member

Net surplus after tax

\$23.1 million

More than **1.5 million**

sales and service phone enquiries answered at RACQ's Queensland call centres

Table of Contents

2

Vision, Mission, Purpose,
Philosophy, Values and
Highlights

4

Our History

5

President's
Report

7

Group CEO's
Report

10

Assistance

13

Insurance

14

Membership

16

Advocacy

18

Community

21

People

25

Measuring
Success

26

Financial
Summary

27

Corporate Governance
Statement

28

RACQ Directors
and Officers

34

Directors'
Report

37

Financial
Report

87

Corporate
Directory

2808

cats and dogs better
protected with
enhanced pet insurance

Life
insurance

launched

1.53 million

Queenslanders read each
print and digital issue of
member magazine *The
Road Ahead*

More
than 1000

'home rescues'
performed since launch
of RACQ Home Assistance

RACQ Insurance online 'quote
& buy' independently rated

Australia's
best

Travel sales up

26%
to more than
\$63 million



Our History

The Royal Automobile Club of Queensland Limited (RACQ) was formed in 1905 to advocate on behalf of the state's early motorists. For the past 111 years it has been the voice of members and their families, ensuring safer drivers in safer vehicles on safer roads.

RACQ is Queensland's largest club and peak motoring body, offering a diverse range of products and services to its 1.6 million members across Queensland.

RACQ is a mutual company, owned by its members and operated for their benefit and the wellbeing of the Queensland community. RACQ members can be found in more than 61% of Queensland households.

Key services include the provision of assistance, insurance, travel and lifestyle products and member benefits.

RACQ is Queensland's largest motor insurer and second largest home insurer, and also provides extensive community support through the activities of the RACQ Foundation, road safety education programs, consumer and motoring advice, and its long-term sponsorship of a community rescue helicopter network across the state. The helicopter network completes more than 2000 life-saving missions, many of them road crash victims, every year.

The Club maintains an extensive network of branches and agencies, and its roadside assistance fleet is more than 10 times that of its biggest competitor, with more than 700 rescue vehicles.

Every year, it attends more than 850,000 roadside calls for assistance, with a world's best practice 'go rate' (which means no tow is required when a patrol attends) of 94%.

RACQ also rescues 1400 babies and more than 700 pets from locked cars annually.

In December 2015, RACQ created new pathways to membership, including customers with insurance, lifestyle and finance products, with membership by 30 June 2016 reaching more than 1.6 million.

RACQ has invested significantly in upgrading its technology and digital platforms to ensure it can meet its members' needs, whenever and wherever they are required.

Service to members is at the core of everything the Club does, and in 2015/16, we earned an overall member satisfaction rating of 94% and a customer trust rating of 97.7%.

The helicopter network
completes more than

2000

life-saving missions
every year

1.6 million
members across Queensland



President's Report

In a year of unprecedented membership growth and fundamental changes to RACQ's relationship with members and the wider community, trust and relevance have remained central to the board's thinking in planning the organisation's future.



Increasing the relevance of RACQ membership to Queenslanders' everyday lives is one critical part of our response to the challenges we face in everything from more reliable motor vehicles to increasing competition in our traditional areas of excellence – roadside assistance and insurance.

Those challenges have been largely facilitated by disruptive digital technology, which has allowed established global players, start-ups and upstarts alike to offer ostensibly attractive substitutes for our high quality service offerings.

As our major initiatives of the past year have clearly shown, RACQ has not been caught unawares by these developments. The establishment of a far broader membership – based

on a range of relationships, including insurance and lifestyle, and our proposed merger with the QT Mutual Bank – demonstrates our front-foot approach to cementing everyday relevance into our membership promise.

We have also continued to embrace the digital technology necessary to better understand our members' needs and preferences, and to transact business with them when and where they choose. Smarter use of technology has also helped make RACQ a more efficient organisation – contributing to the virtuous cycle that reinvests savings for members' benefit.

But in plotting the relevance path, the board has not forgotten that the enviable level of trust we have is attributable, first and foremost, to the hundreds of thousands of person-to-person interactions RACQ staff, agents and contractors have with members every year.

While technology will increasingly assist our RACQ staff in delivering first-class service, the board will continue to ensure that a 'digital divide' does not disenfranchise a core group of members who so highly value the attributes of friendliness, knowledge and helpfulness.

After all, meeting the trustworthiness expectations of 98.1% of our members in 2015/16 points to a relationship we would hardly want to depersonalise.

The expectations of a mutual to act with honesty, integrity and genuine community spirit are that much higher than those for most corporations. That's why there was no hesitation when it came to approving ex-gratia payments totalling \$9.1 million to sub-contractors who would otherwise have been left out of pocket by the financial collapse of RACQ Insurance's household assessing and repairs contractor, Stream Group Aust. Pty Ltd.

Maintaining trust is just as important when it comes to advocacy as it is with direct service delivery. In the past year we continued to frame our advocacy efforts on behalf of members – and Queensland motorists generally – on what was in their best interests from a safety, environmental and economic perspective. This contrasts with the marketing imperatives of commercial and other interest groups that choose to raise their profiles in this space.



Road safety, in particular, remains part of RACQ's DNA. Accordingly, we were disappointed with the lack of substantive road funding commitments out of this year's federal election campaign. But where we could make a difference in our own right, we continued to do so.

More than 28,000 young Queenslanders received direct RACQ road safety education through our Streets Ahead and Docudrama programs; our *free2go* youth membership program delivered an innovative range of benefits to 128,000 young Queenslanders; while 6300 older drivers were helped to continue driving with safety and confidence through our education team's Years Ahead and Gold 50 presentations. We also look to make even more of a positive contribution to the health and wellbeing of the Queensland community in future with final State Government approval for our plan to convert its Mount Cotton facility into a truly accessible and world-class driver education centre.

The work of the RACQ Foundation again allowed us to enhance the resilience of communities around Queensland. Since being formed in response to Queensland's horrific season of floods and cyclones in 2011, the foundation's independent board has allocated \$7.16 million in funding to 162 groups helping to rebuild their communities and their social infrastructure in the wake of natural disasters.

Equally pleasing has been the foundation's decision in the past year to assist drought relief measures. It was personally gratifying to see the great work a team of RACQ staff volunteers was able to perform helping drought-impacted grazing families in the Longreach area, thanks to RACQ Foundation support.

Member and community dividends such as those outlined above are as at least important in the board's assessment of RACQ's success in any given year as profit and loss statements. The return of \$134 million of value to members, further investments in technology, payouts to Stream sub-contractors and contributing back to the community were among the factors tempering the 2015/16 results. However, the \$23.1 million surplus still provides a useful source of funds for reinvestment in new and enhanced member services.

In my second year as President, I have again been fortunate to have access to the collective experience and wisdom of a group of fellow directors with a shared vision of just how great the future can be for a thoroughly modern mutual and its members. As a board, we have been similarly fortunate to have Group CEO Ian Gillespie and his senior management team in charge of delivering that vision.

During the year, we were sorry to lose the services of Arthur Gearon as South-West Zone Director. But we have been pleased to fill the resulting casual vacancy with Toowoomba-based, former Heritage Bank CEO John Minz, who brings a wealth of regional and business knowledge to our board table.

At this year's Annual General Meeting we will, with regret, farewell Fay Barker, who will retire as our Townsville-based North Zone Director after 15 years of distinguished service to the Club and North Queensland members. We thank Fay for her contribution and wish her well.

In August we were saddened by the death of former RACQ President and Honorary Life Member, Peter Hobart. An effective advocate for the Gold Coast Zone that he represented, Peter will be remembered for championing the cause of RACQ's sponsorship of CareFlight (now LifeFlight), thus establishing an ongoing relationship that has benefited both organisations and – most importantly – the Queensland community for almost a quarter of a century.

Nigel Alexander

Nigel WF Alexander
President



Group CEO's Report

A year ago I reported that, in many aspects of our business, 2014/15 was the final phase of preparation and foundation for a new era of change and innovation at RACQ.



Twelve months on I can report with confidence and pride on a landmark year that has well and truly ushered in a new era for RACQ and its relationship with our members and the broader Queensland community.

Equipped with changes to the Club's constitution and our membership architecture, and driven by a strategic investment in technology and the right people to help steer our course to a sustainable future, our mutual organisation now has more than one in three Queenslanders as members.

But, just as importantly, our relationship with each one of those 1.6 million members has been reshaped in the past year to become a far more personalised, multi-faceted and beneficial one.

While delivering the world's best roadside assistance remains a fundamental of our membership offering, we continued down our strategic diversification path in 2015/16. Today, any Queenslanders who purchases an annually renewable RACQ service is welcomed automatically to our membership ranks.

Whether they have joined us for our help on the road; to insure their life, home, car, caravan or pet; or to take advantage of our steadily expanding home assistance program; their RACQ membership card gives them access to a continually increasing range of benefits. In 2015/16, we were able to distribute to members \$134 million of value through discounts, cheaper prices, member benefits and community programs, including \$68.5 million in insurance premium discounts.

Our progress in 2016 reinforced our commitment to our vision of being 'a must for all Queenslanders'. Accordingly, we actively explored and exploited opportunities to further expand and diversify the reasons to belong.

The proposed merger with a fellow Queensland mutual, the QT Mutual Bank (QTMB), promises significant benefits for both organisations and our respective members.

For current RACQ members, those benefits will include access to the financial products and services of a bank that shares our 'members first' ethos.

We believe the time is right to invest in building a community-minded alternative to the big four banks, utilising the mutual banking business model with its focus on returning value to members rather than maximising profits from them for investors, and the inherent trust and confidence this brings.

As this report was being written, preparations for the first of two votes by QTMB members for the proposed merger to go ahead were continuing.

If it progresses, the deal will bring additional scale and diversity of offerings to members as further defence of our mutuality in an increasingly globalised and digitised marketplace, where major household brands are now competing (largely online) in our traditional space.

Having identified three broad eco-systems in our members' lives – mobility, home and lifestyle – we have structured and resourced RACQ as a one-stop shop to provide highly personalised services and solutions in all three spheres.



Whether on the road, in the home or enjoying their leisure time, our members are more likely to find – now and in future – a way in which RACQ can help them every day.

To help deliver on that promise of daily relevance and value, we continued to invest in more mobile services in the past year. Today our suite of smart phone apps will not only help us rescue members at the roadside, but get them the best deals from our *Show Your Card & Save* partners wherever they are. Our RACQ Discounts app includes a virtual membership card and also allows members to buy digital tickets to thousands of events and attractions around the nation.

Our enhanced online connectivity with members now includes the ability to transact most business with us online. It also allows members to check on the renewable RACQ subscriptions and policies they hold and amend any of their personal details when necessary.

Every year, RACQ attends more than

850,000

roadside calls for assistance

Significantly, a 27% annual growth in online sales has not led to a drop in business through our retail stores or call centres. This underlines our commitment to real people helping members in every facet of our activities, while also embracing technological change. Caring and trust are ultimately human attributes that cannot be automated, so our website incorporates a 'click to chat' feature to put members in touch with one of our call centre staff.

RACQ's commitment of care to the wider Queensland community drove our proposal to create a world-class road safety facility at the State Government's Mt Cotton Training Centre. Our market-led proposal to buy the centre and invest \$15 million in making it an innovative road safety technology hub and leading driver education centre for young drivers exemplifies, yet again, what we are in business for: to generate the revenue necessary to make our members' lives easier, safer and more convenient while also benefiting the wider population.

28,000+

young Queenslanders received direct RACQ road safety education

Finances

RACQ Group's financial performance in 2015/16 again reflected that 'mind of a business, heart of a club' philosophy, with a modest after tax surplus of \$23.1 million achieved for reinvestment in capability building and service enhancements. At the same time, \$134 million was returned during the year in member and community benefits.

Continuing low interest rates in the cash investment market impacted on the overall financial result, validating the previously reported expansion of our property portfolio with the purchase of 60 Edward Street, in the Brisbane CBD. This building now not only accommodates RACQ staff, but earns good rental income from commercial tenants.



Meanwhile, the fundamentals of the Group's finances remain very healthy, with no debt, net assets of \$1.14 billion, maintenance of strong market shares in roadside assistance and insurance, and diversified business streams.

Particular note should be made of RACQ Insurance's performance. Its bottom line was negatively impacted by a series of major localised weather events and honouring of \$9.1 million in ex-gratia payments to sub-contractors affected by the financial collapse of our household assessing and repair contractor, Stream Group Aust. Pty Ltd.

Despite this, our insurance arm:

- Made a net after tax surplus of \$18.3 million;
- Sharpened premium prices and grew its overall policy portfolio;
- Maintained household insurance cover in North Queensland, and rewarded residents who undertook approved structural improvements with policy discounts of up to 20%;
- Launched new pet and life insurance products; and
- Delivered more than \$68.5 million in loyalty premium discounts to RACQ members.

People

In a year of historic change in membership structure and growth, product offerings and business processes, it takes special people to deliver an overall member satisfaction rating of 94%. The same people earned RACQ a customer trust rating of 98.1% – a rating independently validated by respected market analysts, Hall and Partners Research, who ranked us second only to a major international brand for trust and reliability among businesses operating in Australia.

RACQ's values of generosity of spirit, being of service, inspiring trust, and dedication to excellence again were manifest, not only among our customer-facing staff, but also their back-office colleagues supporting their efforts. In thanking all 2000-plus RACQ Group staff, I also extend my appreciation to the people of our state-wide contractor and agency network, who play such a major role in maintaining our enviable service reputation.

I also acknowledge President Nigel Alexander and his fellow board directors for their support to me and my management team – and for their continuing commitment to a strategy designed to ensure the viability and vitality of our mutual organisation.

RACQ's ongoing transformation into a multi-dimensional mutual and a must for all Queenslanders will continue in the years ahead and the work of 2015/16 has ensured we are well prepared for that future.

Ian A Gillespie
Group Chief Executive Officer

\$134 million

of value through discounts,
cheaper prices and
community programs were
distributed to members



Assistance

RACQ assistance took on broader meaning in 2015/16 as we extended 90 years of looking after members on the road into their homes.

Now operational in south-east Queensland – and to be progressively rolled out to major centres state-wide – RACQ Home Assistance offers a rapid response for common household plumbing, electrical, and locksmith emergencies. The full Home Assistance package includes up to four home calls a year by a skilled tradesperson, inclusive of the first hour's labour and travel time.

Already more than 3200 householders have subscribed to Home Assistance (entitling them to RACQ membership), with more than 1000 having taken advantage of it in a domestic emergency.

Across the state we attended 878,664 roadside assistance jobs within an average of 32 minutes (85% within 40 minutes) and recorded a world-benchmark 'go' rate (where we helped our members continue their journey after a roadside patrol attended) above 94%.

RACQ's roadside assistance fleet numbers more than 700 across Queensland – 10 times more than the next biggest provider – and we are committed to giving staff and contractors the best possible equipment and technical training.

As a result, the overwhelming majority of Queenslanders continued to choose RACQ as their motoring 'guardian angel', with a satisfaction rating for our flagship service of 99.5%.

Despite a procession of new competitors in the marketplace, RACQ roadside assistance memberships rose slightly in the past year to more than 1.3 million. Of those members, more than 520,000 chose to upgrade to the enhanced levels of personal assistance offered by one of our premium roadside subscriptions – 72,000 of them for the top-of-the-line Ultimate package.

RACQ also remained Queensland's leading supplier of replacement automotive batteries, expertly fitting 160,000-plus quality units at the roadside or in members' driveways. Our trusted brand has become similarly synonymous with windscreens, with RACQ Autoglass fitting, repairing or tinting about 60,000 – most of them at the customer's home or workplace.

Pleasingly, our strategy of 'brand spread' beyond our traditional fields of roadside assistance and insurance continued to pay dividends (to RACQ and members alike) in the lifestyle and leisure sphere.

With an eye to changing demographics, in which a privately-owned motor vehicle does not necessarily sit in every home garage, we refreshed our RACQ Lifestyle membership, which allows access to a huge range of retail, entertainment and dining discounts for just \$26 a year. We're particularly pleased that the Lifestyle option allows older members forced to give up their motor vehicles a viable and attractive option for maintaining their association with our Club.

We now give members access to one of Queensland's largest ticketing programs, with discounts available to more than 3500 attractions across Australia, plus a wide range of retail products and services, conveniently accessible online and through a mobile app. Members enjoyed more than \$1 million in savings on 170,000 attraction tickets purchased through RACQ.

1.33 million
member vehicles covered
by RACQ roadside assistance



With total sales of \$7.56 million, we consolidated our position as Australia's leading reseller of movie tickets. Now available online as well as in-store, sales of member-discounted tickets were up 42% to 715,702.

In the face of the growing trend to online self-service by people planning and booking holidays, RACQ Travel's 13 branches had a record year, increasing gross sales 26% to just under \$63 million. It did so by focussing on providing a full travel agency service and seeking out the best value packages for members. Just part of that value dividend was more than \$1.6 million in credit card fees and travel insurance commissions we waived for members.

Our enhanced website meant online sales across all services rose 27% to \$97.7 million. Despite our total web traffic increasing 53% to 9.4 million visits, our call centre staff (all located in Queensland) still handled more than 1.5 million general sales and service phone inquiries (including 41,500 'click to chat' referrals from our website). Another 750,000 people chose to visit our branches and agencies.

Our proven expertise in roadside assistance was again deployed to the benefit of the wider south-east Queensland community through our commercial contracts for traffic response and freeway clearance held with the Queensland Government, Brisbane City Council and toll road operator Transurban. As of 2015/16, our Brisbane traffic response units now operate 24/7 to help keep the city's arteries flowing, blending seamlessly with our roadside assistance for the benefit of our motorist members in urban breakdown situations.

In the post-licence education sphere, our Drive Assist unit took its popular caravan and towing courses to Cairns, Townsville, Mackay, Rockhampton and Bundaberg through local RACQ-approved driving schools, tapping into the continuing popularity of caravanning among the state's grey nomads.

Drawing on RACQ's huge repository of knowledge and experience on motoring matters, our Motoring Advice team handled almost 16,000 member enquiries on issues from repair and warranty problems to road rules and correct fitting of child restraints. Pre-purchase and other vehicle inspections totalled more than 14,000 for the year, mainly carried out by contracted specialists located in major centres across the state.

Already more than

3200

householders have
subscribed to Home
Assistance



Home Assistance proves valuable

RACQ member and single mum of two young boys, Sonja Hill understands just how costly a leaking pipe can prove.

The part-time postie bought a home at Edens Landing late last year, and having previously relied on tank water, was surprised to discover on receipt of her first water bill that the family's consumption was above average.

But the next bill brought an even bigger shock.

Despite being careful with their use of water, their consumption had doubled. She checked the metre, turned off the water overnight, and the next morning discovered they'd 'used' 1000 litres.

A phone call to RACQ regarding her Home Assistance policy meant a plumber arrived as arranged, and had the leak located and fixed within an hour.

"He was brilliant," Sonja said. "He found the leak in the water pipe up to the house – it was under pavers behind the laundry. He told me what was happening, what needed to be done, and was so helpful.

"I know now how to read my metre and how to replace a section of pipe.

"Having Home Assistance gives me peace of mind. I know I have three more callouts this year that I can access if I need to, and I feel very relaxed.

"Now I just have to see if I can organise a rebate on my water bill from the council."



Insurance

RACQ maintained its commitment to being a genuine state-wide insurer in 2015/16, carrying out its business with the fairness and equity expected of RACQ's brand.

This commitment was reinforced by the changes to RACQ's membership structure, which means all our policyholders are now automatically Club members. Membership loyalty discounts on their RACQ insurance premiums totalled \$68.5 million last year.

Our commitment to improving resilience in Queensland communities remained strong. Our household cyclone resilience program not only assisted North Queensland residents to better protect their lives, properties and possessions from cyclones through approved structural improvements, but also rewarded them with policy discounts of up to 20%.

We remained Queenslanders' first choice for insuring their cars, with our motor insurance business growing to more than 730,000 policies. We also have the second largest share of household covers (444,403 homes insured) in an ultra-competitive market, against multi-national players and online newcomers.

The launch of a more comprehensive pet insurance offering and expanded home and contents cover options helped take total written premium income for the year to more than \$743 million.

Also contributing to business growth and efficiency were enhanced data analysis capabilities, giving us greater insights into the market and pricing, as well as a better understanding of the broader RACQ membership, which remains our primary customer base. At the same time we introduced new technology to make insuring with us easier, with an online 'quote and buy' facility. Global independent research, data and advisory firm, Forrester Research, Inc., rated this Australia's best.

Ultimately, an insurance company's role is to pay claims when policyholders suffer loss or damage. We settled more than 115,000 personal insurance claims totalling almost \$420 million during the year. Our policyholders' overall satisfaction rate with our handling of their claims across all portfolios was 93.7%.

RACQ's profit projections were again predicated on a deliberate strategy of returning an upfront 'dividend' to our member policyholders through loyalty discounts on their premiums. But two other major factors impacted on the 2015/16 financial results.

They were:

- A series of severe but localised storms across the state, generating 4556 claims totalling \$31.4 million, while individually falling below the claim thresholds necessary to trigger our reinsurance cover.
- The financial collapse of our household assessing and repair contractor, Stream Group Aust. Pty Ltd, leading our insurance company to spend \$9.1 million in honouring payments to Stream's sub-contractors and ensuring that repairs to policyholders' homes were completed in a timely and quality manner.

RACQ welcomed the transition to 'no fault' compensation for those injured in road crashes under the National Injury Insurance Scheme. However, the State Government still needs to address and resolve the issue of how the expanded compulsory third party (CTP) compensation scheme will be funded if it is to retain the involvement of non-government insurers such as RACQ.

Through a third party underwriter, AIA Financial Services Limited, RACQ also started offering life insurance in 2015/16, further adding to the ways in which we can assist members and their families.



Membership

The rise in the number of RACQ members from 1.2 million to more than 1.6 million in 2015/16 represents more than just a quantum leap in the size of the state's largest club.

With 61% of households now having at least one RACQ member, it also reflects the broader relationship we are seeking to build with Queenslanders.

While maintaining dominance in our traditional roadside rescue field, our new membership architecture has allowed us to show how RACQ can play a role in helping make Queenslanders' lives better every day, whether it be on the road, in the home, or making the most of our great lifestyle.

Organisationally, this has required the dismantling of internal administrative 'walls' to give us a single view of each member, allowing us to create and tailor products and services – from pet and life insurances to travel deals – for individual needs.

The purchase of any eligible RACQ service with an annually renewable subscription, e.g., roadside, insurance or home assistance, or taking out a personal loan through RACQ, now automatically brings with it full voting rights, club membership and access to our ever-growing range of member benefits.

We recognise how important that association is for some 37,000 Queenslanders who have been members for 50 years or more. In 2015/16 we again sought to thank as

many as possible of our valued Gold 50 members with our continuing series of special appreciation events, held throughout Brisbane and regional centres.

Remaining part of the RACQ family is something our long-standing members tell us they value. For this reason, we gift Lifestyle membership to those Silver, Gold or Gold 50 members who are aged over 60 and are no longer able to drive. In 2015/16, this meant 6500 RACQ members were able to maintain their loyalty level and access to all the benefits, services and discounts that membership offers.

At the other end of the age spectrum, our *free2go* youth membership program delivered an innovative range of benefits to young Queenslanders with whom we seek to forge a life-long relationship. These ranged from a youth-oriented discount program to practical advice and assistance at the start of their driving careers.

Total *free2go* membership rose by about 2000 to more than 128,000. This included almost 24,000 who were paying discounted roadside assistance subscriptions (free in the first year for 17-year-olds and year 12 students).

RACQ member benefits

As stated earlier in this report, in 2015/16, we were able to distribute to members \$134 million of value through discounts, cheaper prices, member benefits and community programs, including \$68.5 million in insurance premium discounts.

RACQ's benefits have been carefully chosen to reflect members' needs, passions and priorities. They fall into four broad categories:

- **Help you can call on**

From Aussie Assist with 24-hour travel assistance in Australia to international Referral Assistance, which helps members find an interpreter or medical facility, RACQ provides somewhere to turn and someone to talk to – around the clock.

- **Advice you can trust**

Whether members need advice on buying a new car, guidance after a crash, information on fuel prices and road conditions, or assistance booking a holiday, RACQ is there is help.

- **Savings you can count on**

A member's RACQ card is the key to valuable savings. From discounts on RACQ products and services to entertainment, automotive, and home and garden, members can save with



more than 1200 partner locations nationwide and 150,000 internationally.

- **Connections you can be proud of**
RACQ is the voice of our members and their families on motoring issues, working closely with governments to make motoring safer and more affordable. We work tirelessly in the community, from sponsoring Queensland's helicopter rescue services to delivering education programs that help everyone from our youngest Queenslanders to our oldest stay safe on the road.

Member Charter

In 2015/16, RACQ adopted a Member Charter to underpin our strategy for coming years and to ensure that service to members remains the focus of everything we do.

Our Member Charter encompasses the following four promises that will drive our day-to-day decisions and actions, and shape our culture:

- **We will deserve our members' trust.**
We will do whatever it takes to earn the trust and confidence of our members. This means our actions and decisions are made through a 'member lens'. We are open and transparent in all our member interactions and dealings.

- **We will put our members' interests first.**

Without exception, the interests of our members will always be at the heart of everything we do.

- **We will deliver on our members' needs and increase member value.**

Our members' needs are our business. We consistently deliver products and services that meet the needs of our members and their families, enriching their lives and delivering value. Through personalisation and a best-practice member experience, we will build deeper relationships with our members.

- **We will seek to look after the communities in which our members live.**

We live, work and contribute to the same community as our members. We hold ourselves to the very highest standards of corporate citizenship and work in collaboration with communities for the better. To do this we advocate for our members to make our communities safer, stronger and sustainable.

Some examples of the benefits members received included:

Benefit	No. of recipients
Gifted Home Assistance Quickfix to members with eligible RACQ home insurance	102,852 covers
Car hire discount (provided to eligible Silver, Gold and Gold 50 members who hold motor insurance)	344,000 eligible covers
Maps and guides (free and discounted to members)	192,000
\$10 rebate on roadside assistance for members who hold RACQ Compulsory Third Party insurance	267,000 members
Show Your Card & Save discounts	181,000 members saved average \$64 each
One year-free roadside assistance for Free2go members	35,000 members
Loyalty discount on roadside	400,000 members
RACQ batteries discount	145,000 members
Loyalty discount on motor insurance	416,000 members
Loyalty discount on home insurance	195,000 members



Advocacy

RACQ's advocacy on behalf of Queensland motorists faced an increasingly complex challenge in the past year as politics at all levels of government became more volatile.

The major parties' traditional grip on government and opposition continued to loosen in the federal and state spheres, with other political groupings growing in public and legislative influence. This meant that both RACQ and the auto clubs' national body, the Australian Automobile Association (AAA), worked harder than ever to ensure all legislators were properly informed on matters affecting motorists.

As always, our advocacy efforts were based on continual surveying of the issues that most concerned our members as motorists and on the development of policies based on rigorous research that promoted the widest possible community benefit.

This approach continued to differentiate RACQ as a trusted, independent consumer advocate from a swathe of commercial organisations that now seek to employ 'advocacy' as a marketing tool.

Infrastructure funding

In the run-up to the July 2 federal election, we joined with other AAA-affiliates in our *Keep Australia Moving* campaign, pressing all parties and candidates to fund transport infrastructure projects that would reduce traffic crashes and congestion. In Queensland RACQ campaigned for five major projects:

- Bruce and Warrego Highway upgrades (including the Toowoomba Range Second Crossing).
- Pacific Motorway widening to eight lanes from the Gateway Motorway to Loganholme and to six lanes between Nerang and Tugun.
- Cross River Rail, providing a second river crossing and extra capacity in inner Brisbane.
- Inland Queensland Road Action Plan (IQ-RAP), a 15-year program to enhance the safety and productivity of our regional arteries.
- Beerburrum to Nambour Rail Upgrade, which will include duplicating the North Coast Rail Line between Beerburrum and Landsborough.

Despite all having proven economic benefits, austerity politics meant only two projects – M1 upgrades at the Gateway merge and widening to six lanes between Mudgeeraba and Varsity Lakes attracted limited funding commitments from the returned government.

Ethanol mandate

RACQ has campaigned for many years against an ethanol mandate in Queensland, because it would force ULP out of our fuel stations and result in many motorists having to use the much more expensive premium fuels.

RACQ worked closely with the State Government and the biofuels industry to introduce a mandate that did not impose unfair conditions on Queensland motorists, and properly educated motorists on which cars could safely use E10 fuel.

RACQ was happy with the final result, which led to the launch of the E10 OK campaign highlighting that 85% of Queensland petrol cars can now safely use E10. It allowed motorists to quickly put their registration number into the website to determine whether E10 was safe for their vehicle.

The starting mandate level of 3% will also mean Queensland motorists will still have the choice to use ULP if they prefer.



Fuel pricing

High fuel prices generally were a continuing concern for RACQ and our members, with Brisbane earning the unenviable reputation of regularly having the most expensive petrol prices of any Australian capital city. While welcoming the announcement of an Australian Competition and Consumer Commission inquiry into Cairns' pump prices, we maintained our push for similar ACCC scrutiny of pricing in the state capital. We have been encouraged by the recent announcement by the Queensland Government that it will regulate the design and content of fuel price boards, following our campaign for such reform to provide greater consistency and transparency for motorists.

Ride-sharing

In the past year, having surveyed our members to gauge their views, we put a strong case for the State Government to accept the reality of ride-sharing and legalise it. As this report was prepared, we welcomed its announcement that legislation to allow ride-sharing to coexist peacefully with the taxi industry would be brought to parliament, bringing Queensland in line with most other Australian states and territories.

National Injury Insurance Scheme

Similarly, we look forward to working with the State Government to help ensure that the otherwise welcome no-fault National Injury Insurance Scheme can be sustained with adequate reserves to support catastrophically injured road users. This needs to be done without threat to the viability of private insurer participation in Queensland's historically effective compulsory third party insurance scheme.

Our advocacy efforts were again supported by our *Road Ahead* magazine, with its combined print and digital readership of 1.53 million Queenslanders each issue, as well as a proactive media program, which effectively exploited a growing public preference for receiving the news of the day via social media.

We put a strong case for the State Government to accept the reality of ride-sharing and legalise it



Community

Contributing to the wellbeing and welfare of Queenslanders, wherever they live in the state, remained the cornerstone of our community sponsorships and related programs in 2015/16.

While the positive exposure from such activities continued to consolidate our enviable brand status, it was not the fundamental driver of what RACQ regards as part of our charter as Queensland's largest mutual association.

Despite the otherwise high profile of our helicopter rescue network, some of its most valuable work continued to 'fly below the radar', delivering emergency medical aid to remote regional centres or carefully transporting dangerously ill infants to specialised care in the dark of night.

Last year, 10 RACQ-liveried helicopters and their specialist flight and medical crews, based from Mount Isa to Coolangatta, flew a total of 2300 missions – up 13% on the previous year and representing a great return on our \$5.25 million annual sponsorship investment. The overwhelming majority of RACQ members obviously agree, with 99.4% of those most recently surveyed supporting this major sponsorship.

RACQ Foundation

Through the independently run RACQ Foundation, funds were again deployed to assist in the rebuilding of physical and social community infrastructures affected by natural disasters.

In 2015/16, the foundation gave a total \$451,002 to deserving projects – many of them in central Queensland centres recovering from damage or loss to community infrastructure wreaked by Cyclone Marcia in February 2015. In response to the cruel vagaries of Queensland's climate, the foundation board also approved a total \$199,455 to seven projects designed to alleviate the impact of an ongoing, crippling drought on western Queensland communities. This included a week-long program involving skilled RACQ staff helping fix farm machinery and vehicles for drought-hit grazing families in the Longreach area has already been successfully completed (see story on page 20).

Since its inception in 2011, the foundation has approved 170 applications and to date has distributed \$7.16 million.

Road safety education

With additional funding from the State Government, our Road Safety Docudrama program continued. The regular appearance of an RACQ LifeFlight helicopter also added an extra dimension of reality to the simulated road crash scene used to drive home the need for responsibility behind the wheel to senior secondary school students. Our education team delivered Docudramas to 8212 young Queenslanders in 48 schools in 2015/16.

The team also taught the basics of safe road use to 20,200 primary students in 762 Streets Ahead presentations. At our Years Ahead and Gold 50 member events, 6232 older drivers received a refresher in road rules and the medical requirements for driver licensing. Similarly well received by 329 parents and carers were the 24 Kids and Cars presentations, highlighting the need for the correct fitting and use of child restraints and management of young children in and around motor vehicles.



MotorFest

A century of BMWs and the 50th anniversary of the ubiquitous Toyota Corolla were celebrated by more than 10,000 visitors to the 2016 RACQ MotorFest at Brisbane's Eagle Farm racecourse. More than 500 displayed vehicles of many makes and vintages, plus a wide-range of family-friendly entertainment, contributed to another highly successful celebration of motoring and Queensland's lifestyle, while raising \$17,000 for the RACQ Helicopter Rescue Network through gold coin entry donations.

Supporting communities state-wide

With Brisbane's annual Royal Queensland Show bringing together the state's country and city communities, our decision to be the official presenting partner of the much loved Ekka for the next three years made for a natural fit with our own whole-of-state outlook.

Our continuing partnership with the State Government's Get Ready Queensland campaign helped spread the word about preparing for the state's summer season of storms, complementing the community resilience support provided by the RACQ Foundation, the RACQ Helicopter Rescue Service, road conditions reporting, and RACQ Insurance.

We again provided direct support to major regional events with continuing sponsorship of the North Queensland Games, which drew 2700 athletes, competing in 29 sports, from across the South Pacific to Cairns, providing a much valued boost to the local economy. The RACQ Technology Challenge, in Maryborough, hosted some 3000 students from 130 school teams, testing their technical ingenuity and physical stamina in its 24-hour street race for human-powered vehicles.

In March, more than 10,000 athletes of all abilities participated in the RACQ International Women's Day Fun Run around Brisbane's South Bank and city precincts, raising \$278,202 for the Mater Chicks in Pink to assist in them in their support for women battling breast cancer or its after-effects.

We have also partnered with the Queensland Symphony Orchestra and the Queensland Theatre Company to further our lifestyle benefits to members, and in particular to support their touring activities in regional communities.

We continued to support the Australia Zoo Wildlife Hospital in its care for our native fauna through the provision and maintenance of its wildlife rescue van.

In 2015/16, the foundation gave a total

\$451,002

to deserving projects



Weathering the drought

RACQ Road Service Delivery Team Manager Simon McClelland knows what it's like to live at the mercy of the weather.

He was born into a farming family and spent his formative years living and working in rural New South Wales and Victoria.

"I've been there. I know what it's like to have little money and to have your entire livelihood at the mercy of the weather," Simon reflected.

"You can do everything right but if it doesn't rain, it just doesn't rain, and there's nothing that you can do about it."

This personal experience prepared Simon for the harsh realities of four years of drought, when he and five other RACQ mechanics visited Longreach to help farmers enduring one of the worst natural disasters to hit western Queensland.

But one thing Simon (pictured above) wasn't prepared for was the emotional impact that the volunteers had on the farmers.

"The properties were quite isolated and you could tell that the farmers are used to doing everything themselves. When you're in that kind of environment it can be hard to trust other people," Simon explained.

"We had a farmer in his 70s or 80s who was fastidious about the maintenance of his

vehicles – the lack of income from the drought was the only reason his vehicles weren't in perfect condition – and he was used to carrying out all repairs himself.

"It was clear that it was hard for him to accept help and the first day he was hovering over us and watching us like a hawk as we worked on his vehicles."

Simon focussed on building the farmer's trust by explaining exactly what he was doing as he carried out the repairs.

"As we were chatting and working, there was a gradual shift in attitude as he started to trust me. He became quite emotional in his appreciation for what we were doing for him and his wife," Simon said.

For Simon, gaining the trust of the farmers was as important as taking a wrench to the vital farm machinery.

"A little compassion and empathy goes a long way and I was really proud that I was able to gain the trust of the farmers in such a short period of time," he said.

"It takes a lot to open your heart and your home to a group of complete strangers and I think that we were able to form strong bonds with the farmers is a reflection of our (RACQ) brand and our values."



People

A quantum leap in RACQ membership and our product offerings in 2015/16 served to put a spotlight on the people who develop, maintain and deliver our many services.

We currently employ directly more than 2000 Queenslanders, as well as another 1000-plus providing member services through our contractors and agents state-wide. Our staff willingly accepted the challenges this milestone year brought, and we continued to invest in our overall organisational capability through ongoing development of a highly skilled workforce that is committed to the success of our new and traditional services in a very competitive market.

In putting our members' interests first, RACQ continued to strive to be an employer that also puts its employees' interests as a priority, nurturing a sense of purpose, commitment to our strategic goals, and connectedness in their contribution to our future success.

As a mutual organisation that stands or falls on maintaining the confidence of members in our service quality and integrity, RACQ is fortunate to have a brand that attracts employees who have a strong cultural alignment to our values: generosity of spirit; being of service; inspiring trust; and dedication to excellence. Our workplace planning challenge is to attract, train and retain such people.

Our new employee recognition and reward program, BRAVO, is just part of our response to that challenge. It allows managers and peers to nominate employees for going 'above and beyond' in the workplace and also serves to build *esprit de corps* in and across work units.

Our human resources team also devoted more attention to training and support for our customer-facing and other staff as they absorbed the necessary knowledge of expanded membership services and adapted to new business practices.

Diversity and equality

Seven years' formal effort to foster workplace diversity and equality of opportunity through our female mentoring program has produced positive results, with the representation of women in our management team steadily rising. But we recognise that we have a long road to travel when it comes to being a more inclusive employer. This is one of the issues our newly formed Diversity and Inclusion Reference Group (DIRG), chaired by our Chief Information Officer, will be exploring in the coming year.

The group will seek to identify and recommend ways to address the barriers that might be preventing not just women, but also people of different backgrounds, Indigenous people, the LGBTI community, mature-aged workers and people with disabilities, to name just a few, from fully participating in RACQ's workforce.

Programs support wellbeing

Two new programs have made a positive contribution to the physical wellbeing of our employees – and its impact on productivity and costs – from the office desk to the roadside.

Conceptualised and designed by RACQ, our *Ergo Champion* program uses a network of specially trained staff volunteers to support and advise new colleagues on how to set up their desks and chairs properly when they first join the business. While continuing to help other staff with low level ergonomic concerns, our *Ergo Champions* are also trained to refer any possible underlying medical concerns or more complex issues to our Safety and Wellbeing Department for appropriate early intervention and management.



The program helped the group record only one office-related, minor ergonomic injury in the past year, compared with a previous average of more than 10 WorkCover claims for such injuries annually in the three years to 2013.

We recorded good success with our *Harden Up!* pilot program, designed to improve the functional fitness of our roadside assistance patrols to assist in preventing manual handling injuries, arising from such activities as changing tyres and batteries (see story opposite). The program provided gym memberships, personal training and nutritional information to the participating patrols. At the end of the 12-week program, the group recorded a number of significant health improvements, including weight loss, increased functional strength and improvements in sleep and mood.

Improved connections

RACQ made significant inroads to working in a more collaborative and innovative way in FY2016 with the implementation of a new staff intranet system. The cloud-based, SharePoint 365 platform launched in October 2015 and consolidated five previous systems into one single source of truth.

Offering RACQ staff a dynamic and innovative digital space accessible from any device, key features include an interactive homepage, a state-of-the-art search function, and a consolidated business resource centre.

This innovative new intranet system compliments the RACQ Yammer Network that was launched in May 2015. The network is now used regularly by more than 2000 staff and has produced monthly active engagement and participation levels of 80%-plus for the past 10 months, comfortably surpassing industry standards.

Together, these two digital collaboration systems help foster an engaged and connected RACQ staff community.

RACQ currently employs
directly more than

2000
Queenslanders



HARDEN UP! Program delivers healthier patrols

When Roadside Patrol Officer Peter Richmond was approached to take part in a program called Harden Up!, he hoped to learn some tips that would keep him healthy on the job. Six months later he has a totally new perspective on his health and lifestyle.

"I didn't really have any expectations at the beginning of the program but now that I've done it, I can honestly say that it's been life-changing," Mr Richmond said.

The 12-week Harden Up! Program is tailored to the specific needs and work environment of our road-based staff and aims to improve their overall health and fitness and reduce the risk of illness and injury.

Patrol officers spend long periods alone on the road, eating on the run and waiting in vehicles between jobs, which generally require them to perform manual duties and handle heavy items.

Twenty-one Roadside Patrol Officers took part in the pilot of the Harden Up! Program, which included gym membership, personal training sessions, health and fitness seminars and access to a private Yammer group.

"I hadn't seen the inside of a gym in a very long time and was a bit nervous at first," Mr Richmond said. "I've always considered myself relatively healthy but the program uncovered some surprising areas, such as muscle mass and core strength, where I needed improvement.

"This might not sound too important but when you're changing tyres and lifting heavy car batteries every day, having a strong core and good posture make a huge difference to how your body feels at the end of a shift!"

The Harden Up! Program equips participants with knowledge and tools to help them implement lifestyle changes that deliver long-term health benefits.

"Now I look forward to going to the gym and it's become an integral part of my weekly routine," Mr Richmond said. "I'm also much more conscious about my food choices."

General Counsel and Chief Risk Officer Darryn Hammond said that following the success of the pilot, the next 12-week Harden Up! Program would be expanded to include Traffic Response and Vehicle Recovery Officers.

"RACQ's commitment to building better communities starts with our staff as we recognise the importance of investing in the health and wellbeing of our people," Mr Hammond said.

A smiling man with a bald head and a dark blue shirt is holding a beagle puppy. The puppy has brown, white, and tan fur and is looking at the camera with its tongue out. In the background, there is a body of water with several sailboats docked at a pier. The scene is bright and sunny.

Hooked on pet insurance

When beaglier puppy Juno decided to wolf down a fishy morsel while beach walking with her owner, she was oblivious that it would come with extra bite.

She swallowed what was a baited hook, laid out on the sand by a surf fisherman ready for use.

Juno, a tri-colour beagle-cavalier spaniel cross aged 10 months, belongs to Sunshine Coast couple Jacquie and Mark Davidson, and as Mark explained, she 'just gobbled it up'.

"My wife was walking her in the official off-leash area when Juno spotted what looked like something to eat. Jacquie rushed her to a nearby vet, but they couldn't get the hook out of her throat," David said.

"They advised us to take her to an emergency vet at Tanawah, which we did. They fished around for a couple of hours – the hook was very well lodged in Juno's oesophagus – but, again, couldn't remove it.

"By this stage it was after hours, so they advised keeping her in overnight, with the surgeon to look at her first thing in the morning.

"He did, and used a special long instrument to get it out. It meant Juno didn't need surgery but all up, the bill from the three different vets was still \$3300."

The Davidsons had decided to take RACQ pet insurance earlier this year, given Juno's young age and propensity to "tear around like a mad thing".

"The pet insurance, as per the policy, covered 80%," Mark said.

"It was still an expensive walk, but it could have been a lot worse if we didn't have insurance. We still take Juno to the off-leash area, but we've got her obsessed with chasing a ball now, which seems a bit safer."



Measuring Success

For a mutual organisation with membership as its lifeblood, trust is the most valuable asset. That's why, through our people and practices, we continuously strive to earn and retain it.

So it's immensely satisfying to report that RACQ met the trustworthiness expectations of 98.1% of our members in 2015/16 (as measured by our monthly Members' Voice surveys).

Like trust, achieving high levels of customer satisfaction is a constant challenge in an era when consumer expectations of service and product quality – often tailored to their personal requirements – have never been higher. We take great pride in an average member satisfaction score for the year of 94%.

Contributing to that enviable satisfaction rating was the consistently high performance of the staff, agents and contractors who assist our members. They scored a 95.7% approval rating for helpfulness, 97.3% for knowledge and 98.8% for friendliness, validating our efforts in recruitment, training and showing our appreciation to the people who take pride in working for us.

Pleasingly, satisfaction with our lifestyle offerings grew with awareness last year. Our entertainment discounts for members scored a 95.9% satisfaction rating, with our general *Show Your Card & Save* program enjoying similar approval with 93.5%.

Still our primary means of communication with members, *The Road Ahead's* offering of news, motoring, travel and lifestyle information in traditional magazine and digital format earned an annual satisfaction rating of 96%.

RACQ met the
trustworthiness
expectations of

98.1%

of our members

In the year ahead our strategic theme will be to:

Deliver

on our member promise by anticipating and exceeding member expectations, highlighting our point of difference as a mutual.

Drive

aggressively defend and grow our business lines sustainably while becoming more efficient.

Build

create our own future by transforming the business, including integrating banking and finding new opportunities for additional revenue.

Financial Summary



In 2015/16, RACQ Group's net surplus after tax was \$23.1 million. While this was lower than the prior year, it was ahead of plan and reflected high levels of member value (\$134 million), which was returned through lower product prices, discounts and community programs, along with higher service standards.

The Group's trading income of \$972.70 million increased 2.7%* (up from \$947.80 million) in 2014/15. RACQ's core divisions of roadside and insurance performed broadly in line with expectations, despite a number of challenges and increasing competition.

No major weather events occurred in the year, but summer storms and an east coast low in June 2016 generated more than \$30 million in insurance claims.

The insurance arm's performance was also negatively affected by its household and repair contractor, Stream Group Aust. Pty Ltd, going into voluntary administration. While under no contractual obligation, RACQ made \$9.1 million in ex-gratia payments to Stream's sub-contractors to ensure that repairs to policyholders' homes were completed in a timely and quality manner.

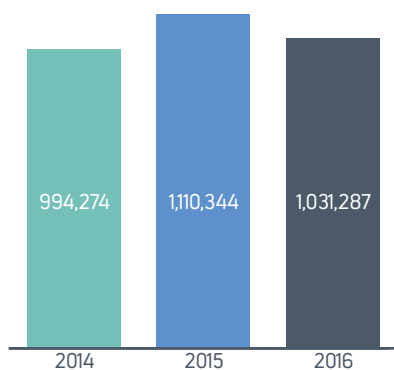
The Group's net assets increased to more than \$1.14 billion as at 30 June 2016, an increase of 1.7% from the previous year.

RACQ invested more than \$40 million in projects throughout the year. These projects have brought new products to market, with pet insurance, home assistance and life now available to Queenslanders.

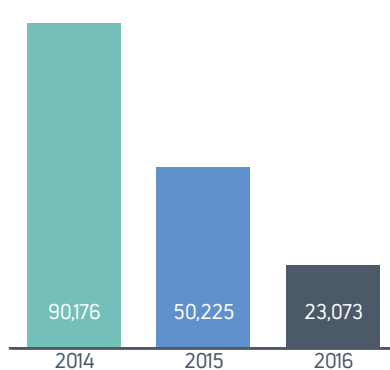
The continued refresh of our online presence was a further key investment, together with the required changes to make all renewable RACQ products a pathway to membership. Upgrades and replacement of core systems were also carried out during the year.

A total of \$5.25 million was provided in sponsorship to Queensland's community rescue helicopters during the year.

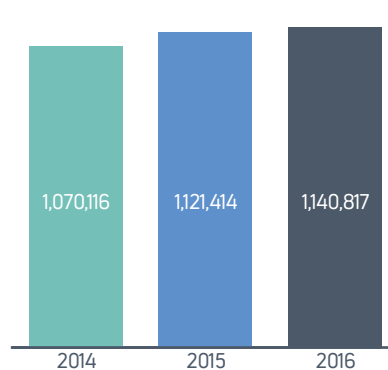
Revenue \$'000



Surplus for the Year \$'000



Net Assets \$'000



* Trading income defined as Total Revenue less Reinsurance and Other Recoveries income.

Corporate Governance

RACQ Limited is committed to operating its business ethically and with high standards of corporate governance.

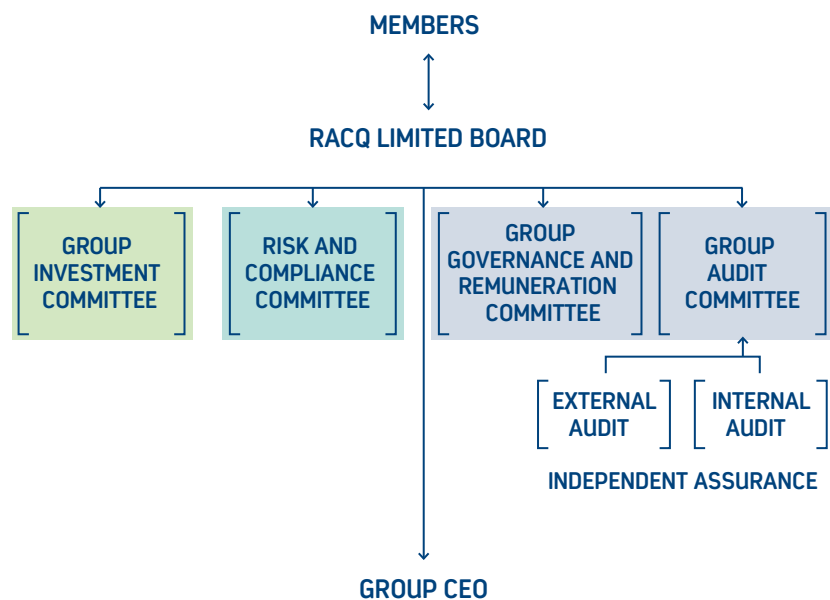
Good corporate governance is a fundamental part of the culture and business of the RACQ Group. The Board of Directors is responsible for the governance of RACQ and its controlled entities (RACQ Group or Group).

What follows is a brief summary of the RACQ Group corporate governance framework. The full 2016 Corporate Governance Statement is available in the Corporate Governance section on RACQ's website (racq.com.au/about/racq/corporate-governance).

The RACQ Governance Framework

RACQ is a public company limited by guarantee, governed by its constitution, by-laws, the *Corporations Act 2001 (Cth)*, common law principles and principles of mutuality. A key entity in the RACQ Group, RACQ Insurance Limited, is also subject to the governance standards that satisfy the Australian Prudential Regulatory Authority (APRA) Prudential Standards that are applicable to general insurers.

The board has adopted a corporate governance framework (above right) to ensure that the interests of members are protected. The corporate governance framework is designed to support the operational and regulatory frameworks within which the RACQ Group operates.



RACQ Directors and Officers



Fay L Barker

Karl D Morris

Nigel WF Alexander

Campbell J Charlton

Bronwyn K Morris

Not pictured: John Minz, Arthur Gearon, Bradley Bowes



Stephen J Maitland

Anthony (Tony) M Gambling

Elizabeth M Jameson

Ian A Gillespie

RACQ Directors and Officers continued

Nigel WF Alexander

B.Bus, MAppFin, FCPA, FAICD

Director, South East Zone, since 2000

President and Chairman and member of the Group Governance and Remuneration Committee. Chairman of RACQ Insurance Limited, Club Insurance Holdings Pty Ltd and Club Finance Holdings Limited. Mr Alexander is a director of The North Australian Pastoral Company Pty Limited and also a director and vice-president of the Australian Automobile Association. He is a qualified accountant, having previously worked in corporate finance roles with both Australian and international banks.

Bronwyn K Morris

B.Com, FCA, FAICD

Director, South East Zone, since 2008

Vice-President and Deputy Chairman, chair of the Group Governance and Remuneration Committee, and member of the Group Audit Committee. Director of RACQ Insurance Limited, Club Insurance Holdings Pty Ltd and Club Finance Holdings Limited. Ms Morris specialised for more than 20 years as a chartered accountant in audit and corporate services. Ms Morris is a Queensland councillor of the Australian Institute of Company Directors, and chairman of LGIA Super. She serves as a director of a number of entities, including the Gold Coast 2018 Commonwealth Games Corporation, Watpac Limited, and Collins Foods Limited.

Ms Morris was previously a partner of the current audit firm, KPMG (retired 1996), at a time when KPMG undertook an audit of RACQ, but was not a director of RACQ at that time.

Fay L Barker

OAM, FAICD

Director, North Zone, since 2001

Member of the Group Investment Committee and Group Governance and Remuneration Committee. Chairman of RACQ Foundation Pty Ltd. Ms Barker is chairperson of the Townsville Hospital Foundation and is a former Townsville City councillor. Her other current directorships include chair of the Benefactors of the Good Shepherd Nursing Homes Limited and chair of the Virginia Chadwick Memorial Foundation. Ms Barker is a former director of the Townsville Port Authority and the Great Barrier Reef Marine Park Authority and a former member of the James Cook University Council.

Campbell J Charlton

B.Com, LL.B, FCA (Rtd), MAICD

Director, Far North Zone, since 2014

Member of the Group Audit Committee and the Risk and Compliance Committee. Director of Club Finance Holdings Limited. Mr Charlton has a 35-year career as a chartered accountant and corporate advisor. He is a member of the James Cook University Council, the Queensland Government's Commonwealth Games Legacy Advisory Committee, and the Executive Committee of the Australia Papua New Guinea Business Council. Mr Charlton is also a director of North Queensland Cowboys Rugby League Club Ltd, sector director of the AusIndustry Entrepreneurs Program for Tourism Development in Northern Australia and Citizens of the Great Barrier Reef Foundation Limited. He is also a past chairman of the judging panels of both the Australian Tourism Awards and the Queensland Tourism Awards.

Anthony (Tony) M Gambling

B.Bus, B.Econ, MBA, FCPA, FAIM, FAICD, JP (Qual)

Director, Central Zone, since 2005

Chairman of the Group Investment Committee. Director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Mr Gambling is general manager of Mango 4 Office Technology and a former director of companies involved in the commercialisation of emerging technologies. He is a member of the Central Queensland Committee of the Australian Institute of Company Directors and the Queensland Small Medium Enterprise Committee of CPA Australia.

Elizabeth M Jameson

LL.B (Hons1), BA, FAICD, MQLS

Director, South East Zone, since 2008

Chair of the Group Audit Committee and member of the Group Governance and Remuneration Committee. Director of RACQ Insurance Limited, Club Insurance Holdings Pty Ltd and Club Finance Holdings Limited. Ms Jameson is the principal and founder of corporate governance consultancy Board Matters Pty Ltd and associated firm Board Matters Legal (since 2002). Ms Jameson was formerly a partner of a national law firm in their corporate/commercial division. She is chair of Brisbane Girls Grammar School, chair of Queensland Theatre Company, and an independent member of the Board of Management of the Queensland Police Service. Ms Jameson has also served on the boards of more than 20 other organisations in the private, not-for-profit and public sectors over the past 20 years.

Stephen J Maitland

OAM, RFD, BEc, MBus, LL.M, FAICD, FCPA, FCIS, SFFin

Director, South East Zone, since 2008

Chair of the Risk and Compliance Committee and member of the Group Audit Committee. Mr Maitland has a background in finance, is a qualified accountant and company secretary, and the principal of corporate advisory firm Delphin Associates. He was chief executive officer of the Queensland Office of Financial Supervision (1992 to 1999) and had a 20-year career in corporate banking. Mr Maitland is also a director of Australian Unity Limited, QInsure Ltd and several private companies.

John F Minz

B.Com, G.Dip Com Computing, Sen. Fellow FINSIA, FAIM, FAICD

Director, South West Zone, since August 2016

Member of the Group Investment Committee and the Risk and Compliance Committee. Mr Minz retired as chief executive officer of Heritage Bank in November 2015, after 23 years with the bank. Mr Minz is chairman of the Darling Downs and West Moreton PHN and president of Toowoomba Together Inc., a community charity created to help eliminate domestic and family violence. He is also a director of the charity Australia's CEO Challenge and a member of the Toowoomba Regional Committee of the Australian Institute of Company Directors.

Karl D Morris

B.Com, MSAA, FAICD, FFin

Director, South East Zone, since 2010

Member of the Group Investment Committee and the Risk and Compliance Committee. Director of Club Finance Holdings Limited. Mr Morris is executive chairman of Ord Minnett Limited and has a 29-year career in financial services and wealth management. Mr Morris is chairman and master member of the Stockbrokers Association of Australia Ltd, chairman of QSuper, member of the Catholic Foundation Archdiocese of Brisbane, and member of the Financial Sector Advisory Council.

Arthur J Gearon

B.Bus (resigned 30 March 2016)

Director, South West Zone from April 2015 until his resignation

Member of the Group Investment Committee and Risk and Compliance Committee. Mr Gearon is a grain, cotton and cattle producer on the Darling Downs. He is the vice-president of AgForce Grains Limited, and a member of the Northern Regional Panel of Grains Research and Development Corporation.

GROUP CHIEF EXECUTIVE OFFICER

Ian A Gillespie

BA, Dip Laws (BAB), FCEOI, FAICD, FAIM

Mr Gillespie has been Chief Executive Officer of the RACQ Group since 2006. He is a director of RACQ Insurance Ltd, Club Insurance Holdings Pty Ltd, Club Finance Holdings Limited, RACQ Foundation Pty Ltd, RACQ Operations Pty Ltd and several other RACQ Group and related entities.

He is also a director of the Australian Automobile Association, Confederation of Australian Motor Sport and Business Council of Cooperatives and Mutuals (BCCM), chairman of Australian Motoring Services Pty Ltd, and vice-chair of Global Mobility Alliance. Mr Gillespie has over 30 years' experience at general management and chief executive level in a broad range of industries in Australia and internationally. Mr Gillespie is supported by a nine member Group Executive Team covering assistance, insurance, finance, development, technology, legal and risk, governance, human resources, and advocacy.

COMPANY SECRETARY

Bradley D Bowes

PhD, FGIA, FCIS, MAICD

Mr Bowes is company secretary for all the legal entities within the RACQ Group and heads the Group Secretariat, with responsibility for group-wide corporate governance matters, including managing all matters associated with the efficient operation of the various boards and committees and of each annual general meeting. Mr Bowes is a chartered company secretary with over 25 years' experience in senior management and similar governance roles, in both private enterprise and the public sector across a range of industries.

RACQ Directors and Officers continued



Bradley P Heath

Bradley D Bowes

Heidi K Suominen

Ian A Gillespie

Glenn A Toms

GROUP EXECUTIVE TEAM

The RACQ Group is organised along its main operating divisions, each of which is headed by a member of the Group Executive Team (GEX), who are direct reports to the Group Chief Executive Officer.

GROUP CHIEF EXECUTIVE OFFICER

Ian A Gillespie

BA, Dip Laws (BAB), FCEOI, FAICD, FAIM

COMPANY SECRETARY

Bradley D Bowes

PhD, FGIA, FCIS, MAICD

CHIEF EXECUTIVE OFFICER, INSURANCE

Bradley P Heath

B.Bus Acc, GAICD

CHIEF INFORMATION OFFICER

Gregory R Booker

MBA, MMgt, MAICD

CHIEF RISK OFFICER AND GENERAL COUNSEL

Darryn L Hammond

B.Sci (Hons), LLB, G.Dip Corp Gov, MQLS, FGIA, FCIS

GROUP CHIEF FINANCIAL OFFICER

Michael J Lonergan

B.Bus, FCPA, Grad Dip App Fin



Paul S Turner

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Christopher P Walsh

CHIEF PEOPLE OFFICER

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B.Bus (HR Mgt), G.Dip Training & Development,
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CHIEF EXECUTIVE OFFICER, OPERATIONS

Glenn A Toms

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CHIEF COMMUNICATION OFFICER

Paul S Turner

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CHIEF DEVELOPMENT OFFICER

Christopher P Walsh

B.Com (Acc), GAICD

Detailed profiles of each GEX member are available at racq.com.au/about/racq/group-executive-team.

Directors' Report

The directors present their report together with the consolidated financial report of the group comprising The Royal Automobile Club of Queensland Limited (RACQ) and its controlled entities, for the year ended 30 June 2016 and the auditor's report thereon.

Directors

The following persons were directors of RACQ during the whole of the financial year and until the date of this report, except where otherwise indicated:

- Nigel W F Alexander (President and Chairman);
- Fay L Barker;
- Campbell J Charlton;
- Anthony M Gambling;
- Arthur J Gearon (resigned 30 March 2016);
- Elizabeth M Jameson;
- Stephen J Maitland;
- John Minz (appointed 14 August 2016);
- Bronwyn K Morris (Vice President and Deputy Chairman);
- Karl D Morris.

Further information on the RACQ directors is contained in the RACQ Directors and Officers section of this annual report on pages 30 and 31. This section also includes their qualifications, experience and particular responsibilities.

Directors' meetings

The number of RACQ board and committee meetings as well as each RACQ director's attendance at those meetings during the financial year, are set out on page 36.

Officers

The persons who were officers of RACQ during the financial year are detailed in the RACQ Directors and Officers section of this annual report on pages 32 and 33.

Principal activities, strategy and objectives

RACQ is one of the largest mutuals in Australia. The principal activities of RACQ during the year included the provision of motoring, insurance, membership and advocacy services.

RACQ exists for members' benefit and well-being. By 2030, RACQ will be a multi-dimensional membership organisation, offering Queensland at least one other reason for joining beyond assistance and insurance. To achieve this, RACQ will:

- Provide member value in a meaningful, relevant and compelling way;
- Capitalise on the use of the respected and trusted brand;
- Revolutionise member experience by investing in improvement and innovation that embraces new technologies; and
- Focus on sustainability that ensures RACQ remains relevant and viable for members.

The RACQ Group Strategic Plan and Budget details the strategy, priorities, targets and activities that are being undertaken in pursuit of the strategy. The strategy is built around the following framework:

- Deliver – Delivering on our member promise by anticipating and exceeding member expectations;
- Drive – Aggressively defending and growing our existing pillars sustainably, while continuing to ensure efficiency across the organisation;
- Build – Creating our own future by transforming the business.

In the short term, RACQ will continue its transformative journey in pursuit of a stronger, more relevant and sustainable business. One key element to this will be RACQ's proposed entry into the banking sector through merger with QT Mutual Bank.

Directors' Report continued

RACQ monitors its performance against the strategic business plan and budget through detailed financial analysis including profit and loss, balance sheet, cash flows and capital expenditure reporting. Key performance parameters, including member satisfaction, retention and acquisition, products per members, policy growth and key financial ratios, are used to measure performance throughout the financial year.

The President's Report and the Group Chief Executive Officer's Report provide further details on how the Group's activities assist in achieving RACQ's objectives.

Review of operations (operating and financial review)

The net result of operations of the RACQ Group and its controlled entities, after tax and after making adequate provision for depreciation and all known contingencies, was a surplus of \$23.1 million (2015: surplus of \$50.2 million). The key driver of the change in result, relative to the prior year, was a return to (lower) levels of earnings in the Group's Compulsory Third Party insurance portfolio.

Trading income increased by 2.1% over the year to \$888.6 million driven by strong growth across the insurance products. Total revenue was 7.1% lower than the prior year, however, this was due to the absence of significant weather events and therefore a reduction in reinsurance recoveries.

A review of operations is contained in the President's Report and the Group Chief Executive Officer's Report. The review assesses membership, assistance products and services, roadside assistance, insurance, advocacy, travel, touring and community activities.

Significant changes in the state of affairs

During the financial year, the RACQ Group created new pathways to membership meaning that persons taking out new eligible products or renewing existing products, such as home assistance, insurance, life insurance or lifestyle products, now become members of RACQ.

Other than as referred to in the Review of Operations, there were no other significant changes in the affairs of RACQ during the year.

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of RACQ, to affect significantly the operations of RACQ, the results of those operations, or the state of affairs of RACQ, in future financial years.

Directors' interests

Since the previous financial year, no director of RACQ has received or become entitled to receive a benefit (other than a benefit included in the total remuneration received or receivable by RACQ directors as shown in the notes to the accounts) by reason of a contract made by RACQ or a related corporation with a director or with a company in which he or she has a substantial financial interest.

Directors may obtain membership, insurance services and other services from the RACQ Group on the same terms and conditions as those obtained by all employees.

Environmental regulations

RACQ's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the directors believe that RACQ has adequate systems in place for the management of its environmental requirements and are not aware of any breach of said environmental requirements as they apply to RACQ.

Indemnification and insurance of officers

RACQ has entered into standard form deeds with all current directors, some former directors and certain present and former executives of RACQ to indemnify them to the extent permitted by law against all liabilities that may arise from their position in RACQ or a controlled entity of RACQ, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that RACQ will meet the full amount of any such liabilities, including costs and expenses.

Directors' Report continued

RACQ holds a Directors' and Officers' Liability Insurance policy on behalf of current and former directors and officers of RACQ and its controlled entities. The directors have not included details in this report of the nature of the liabilities covered, the limit of liabilities covered, or the amount of premium paid in respect of the Directors' and Officers' Liability Insurance contract, as such disclosure is prohibited under the terms of the contract.

Members' guarantee

RACQ is a company limited by guarantee and has no share capital. In the event of winding up, all classes of members are liable to the amount of \$2.00 per member. RACQ has 1,718,049 guaranteeing members resulting in a total contribution of \$3,436,098 upon winding up.

Auditor's Independence Declaration

The Auditor's Independence Declaration is set out on page 86 (of the Financial Report) and forms part of the Directors' Report for the year ended 30 June 2016.

Rounding off

The RACQ is a company of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, therefore, in accordance with that instrument, amounts in the consolidated Financial Report have been rounded off to the nearest one thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the RACQ Directors.



Nigel WF Alexander

President and Chairman

12 September 2016

RACQ Limited board and committee meetings

Director	RACQ Board		Group Audit Committee		Group Investment Committee Group		Governance and Remuneration Committee		Risk and Compliance Committee		QTMB Due Diligence Committee ¹		QTMB Merger Implementation Committee ²	
	A	H	A	H	A	H	A	H	A	H	A	H	A	H
Mr N W F Alexander	8	8	–	–	–	–	5	5	–	–	–	–	2*	2*
Ms F L Barker	8	8	–	–	4	4	5	5	–	–	–	–	–	–
Mr C J Charlton	8	8	5	5	–	–	–	–	4	4	–	–	–	–
Mr A M Gambling	8	8	–	–	4	4	–	–	–	–	–	–	–	–
Mr A J Gearon (resigned 30 March 2016)	6	6	–	–	3	3	–	–	3	3	–	–	–	–
Ms E M Jameson	7	8	5	5	–	–	5	5	–	–	–	–	–	–
Mr S J Maitland	7	8	4	5	–	–	–	–	4	4	5	5	5	5
Ms B K Morris	7	8	5	5	–	–	5	5	–	–	5	5	3*	5
Mr K D Morris	8	8	–	–	4	4	–	–	3	4	–	–	–	–

¹ The QTMB Due Diligence Committee was formed by resolution of the RACQ Limited Board on 3 February 2016 and disbanded on 24 March 2016.

² The QTMB Merger Implementation Committee was formed by resolution of the RACQ Limited Board on 24 March 2016.

A - Meetings attended during the financial year.

H - Meetings held during the financial year while the director held office for which the director was eligible to attend.

* Mr NWF Alexander and Mr KD Morris are alternate members to both Ms BK Morris and Mr SJ Maitland on the QTMB Merger Implementation Committee.

Financial Report

39

Consolidated Statement of Profit and Loss and Other Comprehensive Income

40

Consolidated Balance Sheet

41

Consolidated Statement of Changes in Equity

42

Consolidated Statement of Cash Flows

43

Notes to the Financial Statements

83

Directors' Declaration

84

Independent Auditor's Report

86

Lead Auditor's Independence Declaration

87

Corporate Directory

KEY TO ABBREVIATIONS

CGU Cash Generating Unit

Deed Deed of Cross Guarantee

EBIT Earnings Before Income Tax

EBITDA Earnings Before Income Tax, Depreciation and Amortisation

IBNR Incurred But Not Reported

IBNER Incurred But Not Enough Reported

ICAAP Internal Capital Adequacy Assessment Process

LAT Liability Adequacy Test

PCA Prescribed Capital Amount

PML Probable Maximum Loss

RMS Risk Management Strategy

ReMS Reinsurance Management Strategy

Table of Contents

Consolidated Statement of Profit and Loss and Other Comprehensive Income	39
Consolidated Balance Sheet	40
Consolidated Statement of Changes in Equity	41
Consolidated Statement of Cash Flows	42
Notes to the Financial Statements	43
1 Basis of preparation	43
2 Insurance activities	45
2.1 Insurance result	45
2.2 Net claims incurred	46
2.3 Outstanding claims liability	46
2.3.1 Claims development table	48
2.3.2 Actuarial assumptions and methods	49
2.4 Reinsurance and other recoveries receivable	51
2.5 Deferred acquisition costs	52
2.6 Liability Adequacy Test	52
2.7 Insurance risk management	53
2.7.1 Risk management objectives and policies for mitigating insurance risk	53
2.7.2 Terms and conditions of insurance contracts	53
2.7.3 Concentration of insurance risk	53
3 Financial instruments and capital management	54
3.1 Investment income	54
3.2 Investment securities	54
3.3 Fair value hierarchy	55
3.3.1 Valuation approach	55
3.4 Financial risk management	56
3.4.1 Overview	56
3.4.2 Credit risk	56
3.4.3 Liquidity risk	58
3.4.4 Market risk	59
3.5 Capital management	59
3.6 Accounting policies for financial assets and financial liabilities	61
4 Other assets and liabilities	63
4.1 Investment property	63
4.1.1 Measurement of fair values	63
4.2 Property, plant and equipment	64
4.3 Intangible assets	66
4.3.1 Impairment testing for cash-generating units containing goodwill	67
4.4 Employee benefits	69
4.4.1 Employee benefits expense	69
4.4.2 Employee benefits liabilities	69
4.5 Transactions with key management personnel	70
4.5.1 Key management personnel compensation	70
4.5.2 Director compensation	71
4.6 Unearned revenue	72
4.7 Income tax	72
4.7.1 Income tax expense	72
4.7.2 Reconciliation of the prima facie income tax expense on operating surplus before tax	73
4.7.3 Recognised deferred tax assets and liabilities	74
5 Other notes	75
5.1 Other expenses	75
5.2 Notes to the Statement of Cash Flow	75
5.3 Equity accounted for investments	76
5.4 Leases and commitments	77
5.5 Auditors' remuneration	78
5.6 Group structure	79
5.6.1 Parent entity disclosures	79
5.6.2 Controlled entities	80
5.6.3 Deed of cross guarantee	81
5.7 Contingent liability	82
5.8 Events subsequent to reporting date	82
Directors' Declaration	83

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 30 June 2016

		RACQ Group	
	Note	2016 \$'000	2015 \$'000
Revenue			
Insurance premium revenue	2.1	717,879	704,207
Roadside and home assistance subscription and entrance fee revenue		135,902	134,342
Reinsurance and other recoveries revenue	2.1	58,583	162,538
Investment income	3.1	58,246	57,895
Other assistance and lifestyle product revenue		34,842	32,157
Other income		25,835	19,205
Total revenue		1,031,287	1,110,344
Expenses			
Insurance claims expense	2.1	(500,636)	(573,159)
Employee benefits expense	4.4.1	(136,240)	(135,621)
Outwards reinsurance premium expense	2.1	(75,071)	(76,548)
Payments to contractors for assistance services		(54,991)	(51,929)
Communication and information technology expenses		(44,503)	(41,163)
Other underwriting and acquisition costs		(60,373)	(56,146)
Depreciation and amortisation expense		(53,112)	(51,159)
Property and related costs		(12,538)	(12,197)
Other expenses	5.1	(61,362)	(42,358)
Total expenses		(998,826)	(1,040,280)
Share of profit/(loss) of equity-accounted investments in Associates	5.3	(252)	(60)
Surplus before income tax		32,209	70,004
Income tax expense	4.7.1	(9,136)	(19,779)
Surplus for the year		23,073	50,225
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Defined benefit plan actuarial gains/(losses)		(1,216)	1,179
Income tax benefit/(expense)	4.7	365	(354)
Total items that will not be reclassified to profit or loss		(851)	825
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of financial assets held as available-for-sale		(2,622)	(195)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss		(1,405)	550
Income tax benefit/(expense)	4.7	1,208	(107)
Total items that may be reclassified subsequently to profit or loss		(2,819)	248
Total other comprehensive income for the year, net of income tax		(3,670)	1,073
Total comprehensive income for the year		19,403	51,298

The Consolidated Statement of Profit and Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Balance Sheet

as at 30 June 2016

		RACQ Group	
	Note	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents		55,559	55,311
Trade and other receivables	3.4.2	180,981	159,606
Reinsurance and other recoveries receivable	2.4	75,077	135,263
Investment securities	3.2	381,618	435,193
Deferred acquisition costs	2.5	38,668	37,351
Other current assets		11,002	9,575
Current tax receivable		8,826	10,061
Total current assets		751,731	842,360
Reinsurance and other recoveries receivable	2.4	59,288	72,017
Investment securities	3.2	1,152,347	1,028,685
Investment property	4.1	7,240	7,398
Property, plant and equipment	4.2	152,653	147,089
Intangible assets	4.3	331,788	347,197
Deferred tax assets	4.7	33,596	24,118
Other non-current assets		6,329	8,280
Equity-accounted investment in Associates	5.3	689	941
Total non-current assets		1,743,930	1,635,725
Total assets		2,495,661	2,478,085
Liabilities			
Trade and other payables	3.4.3	59,870	64,086
Unearned revenue	4.6	439,540	411,715
Outstanding claims liability	2.3	279,337	327,436
Employee benefits	4.4.2	25,476	26,291
Total current liabilities		804,223	829,528
Outstanding claims liability	2.3	545,417	522,663
Employee benefits	4.4.2	5,199	4,470
Other non-current liabilities	3.4.3	5	10
Total non-current liabilities		550,621	527,143
Total liabilities		1,354,844	1,356,671
Net assets		1,140,817	1,121,414
Accumulated funds			
Reserves		7,526	10,345
Retained surplus		1,133,291	1,111,069
Total accumulated funds		1,140,817	1,121,414

The Consolidated Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

	Investment revaluation reserve \$'000	Retained surplus \$'000	Total accumulated funds \$'000
2016			
Balance at beginning of year	10,345	1,111,069	1,121,414
Surplus for the year	–	23,073	23,073
Total other comprehensive income for the year	(2,819)	(851)	(3,670)
Total comprehensive income for the year	(2,819)	22,222	19,403
Balance at end of year	7,526	1,133,291	1,140,817
2015			
Balance at beginning of year	10,097	1,060,019	1,070,116
Surplus for the year	–	50,225	50,225
Total other comprehensive income for the year	248	825	1,073
Total comprehensive income for the year	248	51,050	51,298
Balance at end of year	10,345	1,111,069	1,121,414

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

		RACQ Group	
	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Insurance premiums received		801,972	780,391
Subscriptions and entrance fees received		138,651	135,629
Reinsurance and other recoveries received		131,498	138,471
Insurance claims paid		(576,548)	(579,166)
Outwards reinsurance premiums paid		(75,734)	(74,769)
Other cash receipts in the course of operations		30,625	44,682
Other cash payments in the course of operations		(378,060)	(344,403)
Income taxes paid		(17,014)	(48,370)
Net cash provided by/(used in) operating activities	5.2	55,390	52,465
Cash flows from investing activities			
Interest received		56,947	57,487
Trust distributions received		1,543	–
Dividends received		3,340	2,377
Rental income received		1,537	4,077
Payments for investments		(1,106,670)	(1,279,066)
Proceeds from sale of investments		1,030,631	1,288,506
Payments for intangible assets		(25,985)	(36,124)
Payments for property, plant and equipment		(16,984)	(82,283)
Payments for investments in Associates		–	(1,001)
Proceeds from sale of property, plant and equipment		499	1,641
Net cash flows from investing activities		(55,142)	(44,386)
Net increase/(decrease) in cash and cash equivalents		248	8,079
Cash and cash equivalents at the beginning of the year		55,311	47,232
Cash and cash equivalents at the end of the year		55,559	55,311

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 82.

Notes to the Financial Statements

for the year ended 30 June 2016

1 Basis of preparation

Reporting entity

The Royal Automobile Club of Queensland Limited (the Company) is a company limited by guarantee domiciled in Australia. The Company's registered office is 2649 Logan Road, Eight Mile Plains, Queensland, 4113. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Company is a not-for-profit entity.

The consolidated financial statements were authorised for issue by the Board of Directors on 12 September 2016.

Significant accounting policies have been included in the relevant note to which the policies relate. The significant accounting policies have been applied consistently to all periods presented in these financial statements.

Statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

Significant estimates, judgements and assumptions

In preparing these consolidated financial statements management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in the following notes:

- Outstanding claims liability (Note 2.3);
- Liability adequacy test (Note 2.6);
- Reinsurance and other recoveries (Note 2.4); and
- Goodwill impairment (Note 4.3.1).

Basis of measurement

The consolidated financial statements are presented in Australian dollars and have been prepared on the historical cost basis except for the following assets that are measured at fair value:

- Available-for-sale financial assets;
- Financial assets at fair value through profit or loss; and
- Assets backing general insurance liabilities.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that legislative Instrument, amounts in the consolidated financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Current asset deficiency

The majority of investment securities held are highly liquid securities. Some of these securities have maturity dates beyond the next 12 months and are classified as non-current. This has resulted in a reported net current asset deficit as at 30 June 2016. Despite this deficiency, the majority of non-current investment securities are highly liquid investments to ensure the Group is able to meet operating requirements when due.

Notes to the Financial Statements

for the year ended 30 June 2016

1 Basis of preparation (continued)

Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

New standards and interpretations not yet adopted

AASB 9 *Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard becomes mandatory for the Group's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 16 *Leases* was issued and introduces changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on balance sheet. This will replace the operating/finance lease distinction and accounting requirements prescribed in AASB 117 *Leases*. This standard will become mandatory for the Group's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

AASB 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue guidance, including AASB 118 *Revenue*. The standard becomes mandatory for the Group's 30 June 2019 financial statements. The potential impact of this standard on the Group has not yet been determined. The Group does not intend to early adopt this standard.

AASB 9, AASB 16 and AASB 15 are available for early adoption but have not been applied by the Group in this financial report.

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities

2.1 Insurance result

The following table presents details of the underwriting result in respect of the insurance activities included in the Consolidated Statement of Profit and Loss and Other Comprehensive Income:

	Note	RACQ Group	
		2016 \$'000	2015 \$'000
Insurance premium revenue		717,879	704,207
Outwards reinsurance premium expense		(75,071)	(76,548)
Net premium revenue		642,808	627,659
Claims expense	2.2	(500,636)	(573,159)
Reinsurance and other recoveries revenue	2.2	58,583	162,538
Net claims incurred	2.2	(442,053)	(410,621)
Acquisition costs		(79,487)	(72,901)
Other underwriting expenses		(109,327)	(106,549)
Underwriting expenses		(188,814)	(179,450)
Underwriting result		11,941	37,588
Investment income on technical reserves		31,416	31,408
Investment expenses on technical reserves		(1,086)	(1,052)
Insurance result		42,271	67,944

Accounting policies

(i) Insurance premium revenue

Premium revenue includes amounts charged to policyholders, including applicable levies and charges such as fire service levies, but excludes stamp duty and GST collected on behalf of third parties. Premiums are recognised as revenue from the date of attachment over the period of the insurance policy, which is usually one year.

Premium on unclosed business is brought to account based on the pattern of processing renewals and new business.

(ii) Outwards reinsurance premium expense

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract.

(iii) Claims expense

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expense is recognised as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(iv) Reinsurance and other recoveries revenue

Reinsurance and other recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liabilities.

(v) Underwriting expenses

Underwriting expenses for the purpose of this note includes an allocation of communication and information technology expenses, personnel expenses, amortisation of intangible assets and other expenses that are related to acquisition and underwriting activities.

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.2 Net claims incurred

The following table presents the total net claims incurred, which comprises claims expense and revenue from reinsurance and other recoveries:

	Current year \$'000	2016 Prior years \$'000	Total \$'000	Current year \$'000	2015 Prior years \$'000	Total \$'000
Gross claims expense						
Gross claims incurred – undiscounted	586,252	(97,093)	489,159	684,419	(125,669)	558,750
Discount movement	(11,353)	22,830	11,477	(20,473)	34,882	14,409
	574,899	(74,263)	500,636	663,946	(90,787)	573,159
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	(62,883)	7,274	(55,609)	(182,859)	25,095	(157,764)
Discount movement	2,068	(5,042)	(2,974)	2,940	(7,714)	(4,774)
	(60,815)	2,232	(58,583)	(179,919)	17,381	(162,538)
Total net claims incurred	514,084	(72,031)	442,053	484,027	(73,406)	410,621

The decrease in prior year net provisions is primarily due to the release of risk margins as claims were paid and valuation releases arising from favourable claims experience in CTP Insurance.

2.3 Outstanding claims liability

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Further information is provided in 2.3.2.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and the direct and indirect costs of settling those claims. The expected future payments are discounted to present value using a risk-free discount rate.

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

A breakdown of the total outstanding claims liability is as follows:

	RACQ Group	
	2016	2015
	\$'000	\$'000
Gross outstanding claims liability		
Gross central estimate – undiscounted	660,680	707,621
Claims handling expense	45,401	41,356
	706,081	748,977
Discount to present value	(26,200)	(33,871)
Risk margin	144,873	134,993
Gross outstanding claims liability	824,754	850,099
Current	279,337	327,436
Non-current	545,417	522,663
Gross outstanding claims liability	824,754	850,099
	%	%
Risk margin	25.8	26.1
Probability of sufficiency	92.5	92.5

A reconciliation of the movement in the discounted net outstanding claims liability is as follows:

	RACQ Group	
	2016	2015
	\$'000	\$'000
Net outstanding claims liability at the beginning of the year	642,819	623,496
Prior periods		
Claim payments	(192,921)	(146,406)
Discount unwind	9,495	12,542
Margin release on prior periods	(42,611)	(35,144)
Incurred claims due to changes in assumptions and experience	(35,403)	(78,261)
Current period		
Net central estimate for current period	241,316	214,338
Net change in reinsurance on paid claims	6,476	(366)
Risk margin on current period net outstanding claims	61,218	52,620
Net outstanding claims liability at the end of the year	690,389	642,819
Reinsurance and other recoveries receivable	134,365	207,280
Gross outstanding claims liability	824,754	850,099

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.1 Claims development table

The following table shows the development of the estimated undiscounted outstanding claims liabilities relative to the ultimate expected claims for the 10 most recent accident years. Amounts are net of reinsurance and third party recoveries. Personal Insurance (Home, Motor, Pleasurecraft and Pet) claims are disclosed separately as there are no material claim developments that require disclosure because the majority of claims are settled within 12 months following the reported incident

Accident year	2007 \$'000	2008 \$'000	2009 \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	Total \$'000
Estimate of net ultimate CTP claims cost:											
At end of accident year	87,335	104,281	128,115	141,527	142,357	151,096	155,581	169,902	155,377	171,782	171,782
One year later	89,412	118,697	125,969	125,074	128,012	126,160	139,449	147,050	146,065	–	146,065
Two years later	95,363	112,780	113,055	108,598	110,494	109,153	118,280	140,057	–	–	140,057
Three years later	87,769	101,825	114,349	103,134	99,573	102,062	98,069	–	–	–	98,069
Four years later	80,064	97,086	108,279	93,537	91,412	96,824	–	–	–	–	96,824
Five years later	82,096	94,507	102,649	96,195	89,111	–	–	–	–	–	89,111
Six years later	83,549	90,138	102,354	92,525	–	–	–	–	–	–	92,525
Seven years later	88,015	89,086	102,680	–	–	–	–	–	–	–	102,680
Eight years later	85,846	88,898	–	–	–	–	–	–	–	–	88,898
Nine years later	85,411	–	–	–	–	–	–	–	–	–	85,411
Current estimate of net ultimate claims cost	85,411	88,898	102,680	92,525	89,111	96,824	98,069	140,057	146,065	171,782	1,111,421
Cumulative payments	(84,479)	(85,988)	(97,862)	(87,134)	(82,707)	(79,736)	(66,384)	(49,002)	(22,973)	(2,235)	(658,499)
Net outstanding claims – undiscounted	932	2,910	4,818	5,391	6,404	17,088	31,685	91,055	123,092	169,547	452,922
Discount to present value											(22,736)
Claims handling expenses											37,095
2006 and prior											11,857
Outstanding claims – CTP											479,138
Outstanding claims – Personal Insurance											66,378
Risk margin											144,873
Total net outstanding claims											690,389

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.2 Actuarial assumptions and methods

The estimation of the outstanding claims liabilities is based on multiple actuarial models that analyse experience, trends and other factors utilising the Group's specific data, relevant industry data and general economic data. The selection of the appropriate model takes into account the characteristics of a claim type and class of business and the extent of the development of each past accident period.

The models use statistical analyses of historical experience. Generally it is assumed that the development pattern of current claims will be consistent with past experience. Where historical experience is not sufficient, a combination of actual and industry experience is utilised to calculate the ultimate claims cost. An allowance is made, including relevant industry issues faced by the Group, for changes or uncertainties in the underlying assumptions derived from historical data, which might cause the cost of unsettled claims to increase or reduce compared with the cost of previously settled claims.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in estimating claims provisions, it is likely that the final outcome will prove to be different from the original liability established. There is a significant degree of uncertainty in the estimation of claims IBNR and claims IBNER. Personal Insurance claims are generally reported within a short timeframe following the claim event and therefore claims cost estimates are more certain. CTP Insurance claims display increased complexity and longer settlement periods and are generally subject to a greater degree of uncertainty with claims often not being adequately reported until many years after the events giving rise to the claims have happened.

Actuarial assumptions

The actuarial assumptions used in determining the outstanding claims liability are:

	2016		2015	
	Personal Insurance	CTP Insurance	Personal Insurance	CTP Insurance
Discount rate	1.6%	1.7%	2.1%	2.3%
Economic inflation rate	–	3.3%	–	3.5%
Superimposed inflation rate	–	3.5%	–	3.5%
Claims handling expense ratio	6.6%	7.4%	4.8%	6.8%
Risk margin	20.5%	27.3%	17.6%	27.3%

Discount rate

Discount rates are derived from market yields on Commonwealth Government securities at the reporting date.

Inflation and superimposed inflation rate

Economic inflation is based on economic indicators such as growth in average weekly earnings. Superimposed inflation reflects the tendency of claims costs to increase above the rate of economic inflation, due to economic, social and political forces. Inflation assumptions reflect past experience and future expectations.

No explicit allowance for economic or superimposed inflation has been made in the valuation of Personal Insurance claims. Allowances for future inflation are implicit in the selected claims cost development patterns.

Claims handling expense ratio

The future claims handling expense ratio is calculated with reference to past experience of claim handling costs as a percentage of past payments.

Risk margin

The overall risk margin is determined by the Board after analysis of the relative uncertainty of the outstanding claims estimate for each class of business. Uncertainties surrounding the outstanding claims liability estimation process include those relating to the robustness of the various valuation models and the underlying assumptions, reliability and volume of data available, past claims experience, characteristics of the classes of business written, and industry and market conditions.

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.3 Outstanding claims liability (continued)

2.3.2 Actuarial assumptions and methods (continued)

Risk margin (continued)

The assumptions regarding uncertainty for each class of business were applied to the net central estimates, and the results are aggregated, allowing for diversification in order to arrive at an overall provision that is intended to have a probability of sufficiency of around 90% (2015: 90%).

Sensitivity analysis – insurance contracts

The Group conducts sensitivity analyses to quantify the exposure to the risk of changes in the key actuarial assumptions. A sensitivity analysis is conducted on each variable while holding all other variables constant.

The following table summarises the sensitivity of the surplus/(loss) after tax. A change in each variable will have no impact on equity reserves.

Impact of changes in key variables	Movement in Variable		Financial Impact on Surplus/(Loss) after tax	
	2016	2015	2016 \$'000	2015 \$'000
Assumption				
Discount rate	+1%	+1%	10,238	9,338
	-1%	-1%	(10,584)	(9,644)
Inflation rate	+1%	+1%	(9,963)	(7,855)
	-1%	-1%	9,691	7,835
Claims handling expense rate	+1%	+1%	(5,328)	(5,279)
	-1%	-1%	5,328	5,279
Risk margin	+1%	+1%	(7,696)	(6,097)
	-1%	-1%	7,155	5,691

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.4 Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable are measured as the present value of expected future receipts, calculated on the same basis as the provision for outstanding claims. These calculations are based on past recovery experience or relevant industry benchmarks and include adjustments to these assumptions where appropriate. The recoverability of these assets is assessed on a periodic basis, taking into consideration factors such as counterparty credit risk.

A breakdown of reinsurance and other recoveries receivable is as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
<i>Reinsurance recoveries</i>		
Expected undiscounted outstanding reinsurance recoveries		
On paid claims	2,277	8,765
On outstanding claims	40,681	103,975
	42,958	112,740
Discount to present value	(3,095)	(4,898)
	39,863	107,842
<i>Other recoveries</i>		
Expected undiscounted outstanding other recoveries		
On paid claims	56,616	55,678
On outstanding claims	40,861	47,890
	97,477	103,568
Discount to present value	(2,975)	(4,130)
	94,502	99,438
Total reinsurance and other recoveries receivable	134,365	207,280
Current	75,077	135,263
Non-current	59,288	72,017
	134,365	207,280

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.5 Deferred acquisition costs

Acquisition costs incurred in obtaining and recording general insurance contracts are deferred and recognised as assets when they can be reliably measured and where it is probable that they will give rise to premium revenue in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition cost and the present value of expected future claims, including an appropriate risk margin. Refer note 2.6 Liability Adequacy Test.

The following is a reconciliation of the deferred acquisition costs:

	RACQ Group	
	2016 \$'000	2015 \$'000
Deferred acquisition costs at beginning of the year	37,351	33,757
Acquisition costs incurred in the period	80,804	76,495
Amortisation expense	(79,487)	(72,901)
Deferred acquisition costs at end of the financial year	38,668	37,351

2.6 Liability Adequacy Test (LAT)

At each reporting date the Group assesses whether the net unearned premium liability less any deferred acquisition costs is sufficient to cover expected future claims costs against current general insurance contracts. This assessment is performed separately for each portfolio of contracts subject to broadly similar risks and managed together as a single portfolio. The Group has one portfolio of contracts being personal lines, which incorporates Personal Insurance and CTP Insurance.

If a LAT deficiency occurs, it is recognised immediately in profit or loss. The deficiency is recognised first by writing down any deferred acquisition costs, with any excess being recorded in the Balance Sheet as an unexpired risk liability.

Future claim costs are calculated as the present value of the expected future cash flows relating to future claims and includes a risk margin to reflect the inherent uncertainty in the central estimate, as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
Central estimate present value of expected future cash flows arising from future claims	335,899	311,602
Central estimate present value of expected future cash inflows arising from reinsurance recoveries on future claims	(31,069)	(31,204)
Risk margin	22,169	20,622
Expected present value of future cash flows for future claims including risk margin	326,999	301,020

The risk margin adopted in 2016 is 7.3% (2015: 7.4%). The risk margin applied in the calculation of the LAT is intended to achieve a 75% probability of sufficiency. This differs from the 92.5% probability of sufficiency used in the calculation of the outstanding claims liability. The 75% level of sufficiency is considered appropriate given the purpose and nature of the test, which is to test the sufficiency of the net premium liabilities and to highlight deficiencies in product pricing. The process for determining the risk margin is outlined in Note 2.3.2 Actuarial assumptions and methods. As at 30 June 2016 and 30 June 2015, the LAT resulted in a surplus.

Notes to the Financial Statements

for the year ended 30 June 2016

2 Insurance activities (continued)

2.7 Insurance risk management

2.7.1 Risk management objectives and policies for mitigating insurance risk

In accordance with Prudential Standard *CPS 220 Risk Management* issued by the Australian Prudential Regulatory Authority (APRA), the Board of Directors of Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, in conjunction with responsible management, have developed, implemented and maintained a Risk Management Strategy (RMS). The aim of the RMS is to ensure that the Group has in place prudent risk management systems to effectively identify, evaluate, mitigate and monitor all key risks that the Group faces through its insurance operations. The respective Boards of Directors are responsible for reviewing their RMS annually.

The key components of the RMSs that aim to mitigate insurance risk include:

- Underwriting operations are managed in accordance with underwriting rules and guidelines, with regular quality assessment and monitoring of operations. Each individual policyholder pays a premium that is based on their relative risk in comparison to other policyholders; and
- Claims operations are managed in accordance with claims handling rules and guidelines, with regular quality assessment and monitoring of operations. These include, among other factors, delegations of authority for acceptance and approval of claims, review processes for claim payments and processes for accurate initial and ongoing claims provisioning.

In addition to the RMS, the Group has developed, implemented and maintained a Reinsurance Management Strategy (ReMS) in accordance with *GPS 230 Reinsurance Management* issued by APRA. The Group has in place comprehensive reinsurance arrangements to increase the capacity to underwrite new insurance business and, at the same time, reduce the volatility of operating performance. The ReMS documents the reinsurance processes and arrangements that the Group has in place to provide the necessary security and liquidity to meet its obligations to policyholders and, hence, provide protection to the assets of the Group.

In respect of natural peril risk, an annual probabilistic modelling process is undertaken to guide the setting of the upper limit of the catastrophe reinsurance program. This modelling calculates a Probable Maximum Loss (PML) at various return periods. The Board of Directors of RACQ Insurance Limited considers the outputs of the modelling on an annual basis.

2.7.2 Terms and conditions of insurance contracts

The Group has developed and maintains standard insurance contracts for all insurance policies. The terms and conditions of these insurance contracts are based upon legislative requirements as stipulated within the *Insurance Contracts Act 1984*. The Group utilises these standard contracts for all insurance policies. No special terms are entered into with any policyholder that have a material impact upon the consolidated financial statements.

2.7.3 Concentration of insurance risk

The Group aims to reduce its exposure to concentration of insurance risk by maintaining a balanced diversified portfolio across both short tail (Personal Insurance) and long tail (Compulsory Third Party) classes of business. Concentration within the classes is also monitored to ensure excessive levels of exposure to certain perils and/or geographical regions are within desired levels.

All risks are aggregated via postcode and then modelled with commercial catastrophe modelling tools to evaluate the single largest risk, or PML. The largest risk faced in respect of concentration is the risk of natural catastrophes.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management

3.1 Investment income

Investment income is comprised of interest income on funds invested (including available-for-sale financial assets), dividend income, realised gains/losses on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised using the effective interest method. Dividends and distribution income are recognised when the right to receive income is established.

Investment income comprises the following:

	RACQ Group	
	2016 \$'000	2015 \$'000
Interest income		
Available for sale financial assets	10,006	12,165
Financial assets designated at fair value through profit or loss	46,919	45,322
Net gain/(loss) on disposal of available-for sale financial assets transferred from equity	1,405	(550)
Net change in fair value of financial assets designated at fair value through profit or loss		
Unrealised gains/(losses)	(2,089)	2,327
Realised losses	(2,878)	(3,746)
Dividend income	3,340	2,377
Trust distribution income	1,543	–
Total investment income	58,246	57,895

3.2 Investment securities

Investment securities are classified as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
Current		
<i>Available for sale</i>		
Debt securities	8,432	13,497
Deposits and bills	30,493	76,308
Unit trusts	53,380	–
<i>Designated at fair value through profit or loss</i>		
Debt securities	187,424	201,158
Deposits and bills	101,889	144,230
Total current investment securities	381,618	435,193
Non-current		
<i>Available for sale</i>		
Equity securities	44,724	27,790
Debt securities	29,839	123,331
Deposits and bills	38,994	62,018
Unit trusts	99,022	–
<i>Designated at fair value through profit or loss</i>		
Debt securities	912,268	807,046
Deposits and bills	27,500	8,500
Total non-current investment securities	1,152,347	1,028,685

For accounting policies for investments, refer to Note 3.6.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.3 Fair value hierarchy

The table below analyses financial assets carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted closing prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

RACQ Group	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2016				
Equities	44,724	–	–	44,724
Debt securities	233	1,137,730	–	1,137,963
Deposits and bills	198,876	–	–	198,876
Unit trusts	–	152,402	–	152,402
	243,833	1,290,132	–	1,533,965
2015				
Equities	27,790	–	–	27,790
Debt securities	–	1,145,032	–	1,145,032
Deposits and bills	291,056	–	–	291,056
	318,846	1,145,032	–	1,463,878

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2016 (2015: nil).

3.3.1 Valuation approach

For securities traded in an active market, fair value is determined by reference to quoted bid price or redemption price or broker quotes for similar instruments at the reporting date. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. At 30 June 2016, the Group also held units in the QIC Global Infrastructure Fund, the value of which is based on the redemption price.

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the Consolidated Balance Sheet. The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value as they are short term in nature:

- Cash and cash equivalents;
- Trade and other receivables; and
- Trade and other payables.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.4 Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk, market risk and liquidity risk. This note presents information about the Group's financial risks and the objectives, policies and processes for managing these risks.

3.4.1 Overview

The Board of Directors, including the Board for each of the regulated entities, Club Insurance Holdings Pty Limited and RACQ Insurance Limited, have overall responsibility for the establishment and oversight of the risk management framework. Each Board has established Risk and Compliance Committees that assist their respective boards in developing and monitoring risk management policies. These committees report regularly to their boards on their activities.

The Group adopts an enterprise risk management approach, which incorporates the concept of the 'three lines of defence'. The 'three lines of defence' relate to function and not people. It is recognised that in a practical environment the Group requires its people resources to be employed with a core function within a specific line of defence, however, from time to time people will be fulfilling functional outcomes in other lines of defence. The three lines are:

- 1st line: Management of risks in accordance with the risk management framework;
- 2nd line: Governance of risk management framework and non-executive challenge to risk management decisions; and
- 3rd line: Audit of risk management and framework governance, including non-executive challenge to risk management decisions.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

3.4.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's investment in interest-bearing securities, receivables under reinsurance contracts and other insurance-related recoveries from third parties and trade and other receivables. The Group mitigates credit risk by ensuring the Group invests in secure assets, contracts with financially sound reinsurers and monitors all funds owed on a timely basis. Exposure to credit risk is monitored on a regular basis.

(i) *Investment in interest-bearing securities*

Interest-bearing securities are held in accordance with the investment guidelines approved by the Boards of Directors. The investment guidelines detail the investment strategies, asset selection, asset allocation, credit worthiness and maximum exposures to single counterparties. The Group limits its exposure to credit risk by only investing in interest-bearing securities that comply with Board-approved credit rating exposure limits that are reviewed on a regular basis.

(ii) *Reinsurance and other recoveries*

Credit risk with respect to reinsurance programs is mitigated by the placement of cover with a number of reinsurers with high credit ratings. Reinsurance arrangements and recoveries are regularly monitored and managed by a Senior Executive Committee of RACQ Insurance and by specialised reinsurance brokers operating within the international reinsurance market. The credit risk to reinsurers is managed through the Group having a pre-determined policy on the appropriate credit rating a reinsurer must have to participate in the reinsurance program. Reinsurance is placed with companies with Standard and Poor's credit ratings of 'A minus' or better. Reinsurance contracts include a provision that protects the Group in the event of a downgrade below 'A minus', whereby that individual reinsurer can be replaced.

The credit risk from other insurance-related recoveries with third parties arises from the issuing of recovery action against individual counterparties. Following the identification of a recovery, the debt is monitored and pursued to ensure receipt or to assess recoverability where difficulties arise.

(iii) *Trade and other receivables*

The majority of trade and other receivables relate to insurance policies that are paid on a monthly instalment basis. The late payment of amounts due under such arrangements allows for the cancellation of the related insurance contract, eliminating the credit risk for the unpaid amounts.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as summarised in the tables below. The Group does not hold any significant collateral as security over its receivables and there are no significant concentrations of credit risk within the Group.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.2 Credit risk (continued)

(iii) Trade and other receivables (continued)

The following table provides information regarding the credit risk exposure of the Group's financial and insurance assets classified according to Standard & Poor's credit ratings:

	AAA \$'000	AA+ to AA- \$'000	A+ to A- \$'000	Below A- \$'000	Not rated \$'000	Total \$'000
2016						
Cash and cash equivalents	24,684	29,898	–	–	977	55,559
Trade and other receivables						
Trade receivables	–	–	–	–	4,588	4,588
Insurance premiums receivable	–	–	–	–	167,355	167,355
Other receivables	–	–	–	–	9,038	9,038
Total trade and other receivables					180,981	180,981
Reinsurance and other recoveries receivable	41,092	21,220	18,643	–	53,410	134,365
Debt securities	420,697	447,005	210,244	60,017	–	1,137,963
Deposits and bills	51,881	90,538	52,354	–	4,103	198,876
	538,354	588,661	281,241	60,017	239,471	1,707,744
	AAA \$'000	AA+ to AA- \$'000	A+ to A- \$'000	Below A- \$'000	Not rated \$'000	Total \$'000
2015						
Cash and cash equivalents	21,467	33,783	–	–	61	55,311
Trade and other receivables						
Trade receivables	–	–	–	–	6,393	6,393
Insurance premiums receivable	–	–	–	–	148,733	148,733
Other receivables	–	–	–	–	4,480	4,480
Total trade and other receivables	–	–	–	–	159,606	159,606
Reinsurance and other recoveries receivable	48,098	51,990	55,851	–	51,341	207,280
Debt securities	466,853	429,136	241,661	7,092	290	1,145,032
Deposits and bills	103,974	107,986	74,969	–	4,127	291,056
	640,392	622,895	372,481	7,092	215,425	1,858,286

At 30 June 2016, no receivables of the Group were past due or impaired (2015: nil). The amount of the impairment provision was nil (2015: nil).

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group maintains a prudent approach to managing liquidity risk by ensuring, as far as possible, that it will have sufficient liquid assets on a daily basis to meet its payment obligations when due, under both normal and stressed conditions, without incurring unacceptable losses.

The assets backing insurance liabilities consist of government securities and other quality securities that can generally be readily sold or exchanged for cash. These assets are managed so as to broadly match the maturity profile of the expected pattern of insurance claims payments. In the event of a major catastrophe, cash access may also be available under the terms of reinsurance arrangements.

To ensure the Group has sufficient funds to meet daily obligations, minimum levels of cash are held within the trading bank accounts. These accounts are reviewed daily, in conjunction with obligations to ensure sufficient funds are maintained.

The following table represents the contractual maturities of financial liabilities and the net discounted outstanding claims liability:

	Less than 1 year \$'000	1 – 3 years \$'000	3 – 5 years \$'000	More than 5 years \$'000	Total \$'000
2016					
Outstanding claims liability	279,337	318,954	140,029	86,434	824,754
Trade and other payables					
Trade payables	43,753	–	–	–	43,753
Other payables and accruals	16,117	–	–	–	16,117
Total trade and other payables	59,870	–	–	–	59,870
Other non-current liabilities	–	–	5	–	5
Unearned revenue	439,540	–	–	–	439,540
	778,747	318,954	140,034	86,434	1,324,169

	Less than 1 year \$'000	1 – 3 years \$'000	3 – 5 years \$'000	More than 5 years \$'000	Total \$'000
2015					
Outstanding claims liability	327,436	314,726	131,958	75,979	850,099
Trade and other payables					
Trade payables	42,694	–	–	–	42,694
Other payables and accruals	21,392	–	–	–	21,392
Total trade and other payables	64,086	–	–	–	64,086
Other non-current liabilities	–	–	10	–	10
Unearned revenue	411,715	–	–	–	411,715
	803,237	314,726	131,958	75,979	1,325,910

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.4 Financial risk management (continued)

3.4.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, credit spreads, asset prices and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

The Group, through its Group Investment Committee, reviews and approves the Investment Management Strategies and Investment Mandates at least annually. The performance of all investment managers (both external and internal), including compliance with investment guidelines stipulated within the investment strategies and mandates, is reviewed on a regular basis by management, the Group Investment Committee and the Boards of Directors.

(i) Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates and mainly arises from investments in interest-bearing securities and the valuation of insurance liabilities.

Movements in interest rates should have minimal impact on the insurance profit due to the Group's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.

Exposure to interest rate risk is managed by asset and liability matching, using measures such as duration and credit. To mitigate this risk, the investments in interest-bearing securities are held at an average duration that broadly matches the average duration of corresponding outstanding claims liabilities. The investment manager provides a comparison of assets and liabilities across an annual time series. This is monitored on a monthly basis to ensure that the risk is within the Group's risk appetite. Interest rate risk is also managed through the controlled use of interest rate derivative instruments, including interest rate swaps and futures. The external investment manager is required to regularly report on compliance with the use.

At 30 June 2016, if interest rates had changed by +/- 1% (2015: +/- 1%) from the year-end rates, with all other variables held constant, surplus for the year would have been \$17,437,000 higher/lower (2015: \$14,776,000 higher/lower) and equity reserves would have been \$830,000 higher/lower (2015: \$5,672,000 higher/lower).

(ii) Price risk

Price risk is the risk of loss in current and future earnings from adverse moves in asset prices or equity prices and arises from the RACQ Group's investment in available-for-sale funds or equity securities. Available for sale financial assets are exposed to price risk as redemption prices or share price fluctuates.

Equity risk is reduced by incorporating a diverse holding of blue-chip equities. 59% (2015: 100%) of the market value of the equity securities portfolio comprises stock that forms part of the Standard & Poors ASX 200 Index. At 30 June 2016, if a 1% increase/decrease was applied to the ASX 200 index and all other variables were held constant, equity reserves would have increased/decreased by \$447,230 (2015: \$277,902).

At 30 June 2016, the Group also held units in a number of trusts, the underlying assets of which separately comprised ASX200 Australian equities, international bonds, listed and unlisted infrastructure, and international equities. The fair values of such financial instruments are affected by changes in the market price of the underlying instruments.

3.5 Capital management

The Group's capital management objective is to maintain sufficient capital to protect the interests of all members and regulators while also efficiently deploying capital and managing risk. As a company limited by guarantee, The Royal Automobile Club of Queensland Limited has no shareholders or owners. All surpluses are therefore used to develop the Group's businesses for the benefit of the members.

The Board of Director's policy is to hold the level of capital that is judged to be prudent and sustainable within the bounds of the Group's risk appetite, the restrictions imposed by the Group's legal structure and the fulfilment of the Group's purpose. On this basis the RACQ Group aims to achieve a balance between:

- Maintaining sufficient capital to protect the Group from material and unexpected financial shocks;
- Ensuring that there is sufficient provisioning for future capital requirements; and
- Avoiding the holding of excessive capital, which could otherwise be put to the benefit of members.

Capital consists of total accumulated funds as shown on the Consolidated Balance Sheet.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.5 Capital management (continued)

Regulatory capital

All insurers that conduct general insurance business in Australia are regulated by APRA and are required to maintain internal capital targets. The Insurance Group, comprising Club Insurance Holdings Pty Ltd and RACQ Insurance Limited, has retained its capital target of 2.0 times the Prescribed Capital Amount (PCA) and has a trading minimum of 1.75 times the PCA, which is the capital injection trigger point, in accordance with its Internal Capital Adequacy Assessment Process (ICAAP). If the trading range exceeds 2.15 times the PCA, management will consider paying a dividend to bring the PCA back within range.

The Insurance Group uses the standardised framework for calculating the PCA in accordance with the relevant APRA prudential standards. The Insurance Group has satisfied all externally imposed capital requirements that it was subject to during both the current and prior financial year.

The regulatory capital position of the Insurance Group is as follows:

	2016 \$'000	2015 \$'000
Common Equity Tier 1 capital		
Paid-up ordinary shares	470,890	470,890
Retained earnings brought forward	91,873	88,620
Current year's earnings	15,160	38,254
Dividends declared or paid	–	(35,000)
Excess technical provisions (net of tax)	67,773	64,086
	645,696	626,850
Less: Deductions		
Goodwill and other intangible assets	247,286	251,775
Deferred tax asset	10,955	5,689
Common Equity Tier 1 capital	387,455	369,386
Tier 2 capital		
Subordinated debt	60,000	60,000
Total Tier 2 capital	60,000	60,000
APRA capital base	447,455	429,386
Prescribed Capital Amount (PCA)		
Insurance risk charge	135,877	127,306
Insurance concentration risk charge	28,750	25,000
Asset risk charge	54,959	53,230
Asset concentration risk charge	–	–
Operational risk charge	27,277	25,562
Aggregation benefit	(35,897)	(34,441)
Prescribed Capital Amount (PCA)	210,966	196,657
PCA multiple	2.12	2.18

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.5 Capital management (continued)

Regulatory capital (continued)

The ICAAP ensures that all material risks to which the Insurance Group is exposed have been considered and ensures an appropriate level of capital is held against these risks, which is consistent with the Board's risk appetite. The ICAAP also ensures that there is adequate review, monitoring and reporting of actual and forecast capital position to the Board on a monthly basis.

Key considerations of the Insurance Group's ICAAP are return on capital targets, current and forecast profitability as defined in the annual budget process, capital structure, dividend payments, investment strategy, product mix, reserving strength and reinsurance arrangements.

Incorporated within ICAAP are regular reviews of the Insurance Group's capital needs and risk profile. In order to quantify the Insurance Group's risk profile a dynamic financial analysis is undertaken on an annual basis. This analysis incorporates a number of factors, such as current and future profitability, reinsurance arrangements, investment mix and the insurance liability profile. It also provides simulations of multiple scenarios to determine a range of impairment risk measures. The Boards of the Insurance Group consider the risk of impairment measures through the annual risk appetite setting process to set a target and trading range of capital to sustain the business in the event of numerous adverse impacts.

3.6 Accounting policies for financial assets and financial liabilities

Non-derivative financial assets

The RACQ Group initially recognises financial assets (including assets designated at fair value through profit or loss) on the trade date at which the Group becomes a part of the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from that asset expire, or it transfers substantially all risks and rewards of the financial asset.

The Group has the following non-derivative financial assets:

(i) *Cash and cash equivalents*

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

(ii) *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments, evaluates the performance and makes purchases and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Upon initial recognition, transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value on each reporting date, and changes therein are recognised in profit or loss.

The Group's financial assets at fair value through profit or loss include those investment securities held to back insurance liabilities.

(iii) *Trade and other receivables*

Trade and other receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses. Trade and other receivables are assessed at each reporting date to determine whether there is objective evidence of impairment, such as default or delinquency by a debtor.

(iv) *Available-for-sale financial assets*

The Group's investments in equity securities and certain debt securities (those that are not held to back general insurance liabilities) are classified as available-for-sale financial assets where they are intended to be held for an indefinite period of time, but which may be sold in response to a need for liquidity or changes in interest rates. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised directly in other comprehensive income and presented within equity in the investment revaluation reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to surplus.

Notes to the Financial Statements

for the year ended 30 June 2016

3 Financial instruments and capital management (continued)

3.6 Accounting policies for financial assets and financial liabilities (continued)

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

Impairment losses on available-for-sale financial assets are recognised by reclassifying the cumulative losses in the investment revaluation reserve in equity to surplus. The amount reclassified is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in surplus.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date at which the Group becomes a part of the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(i) Trade and other payables

Trade and other payables are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Trade and other payables are unsecured, non-interest bearing and are usually settled within 30 days.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities

4.1 Investment property

Investment property comprises land and buildings held for the purpose of either capital appreciation or to earn rental income, or both. The Group has chosen the cost model approach in accounting for investment properties. Accordingly investment properties are recorded at cost less any accumulated depreciation and any accumulated impairment losses. Investment properties are depreciated on a straight line basis at 2.5% per annum.

The table below presents the movement in the carrying amount of the investment properties:

	RACQ Group	
	2016 \$'000	2015 \$'000
Carrying amount at beginning of year	7,398	7,552
Acquisitions	–	–
Depreciation Expense	(158)	(154)
Carrying amount at the end of the year	7,240	7,398

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. During the year to 30 June 2016, rental income of \$1,537,796 was recognised in the surplus (2015: \$1,409,169) and direct operating expenses, including repairs and maintenance associated with holding these investment properties, was \$367,305 (2015: \$237,811).

4.1.1 Measurement of fair values

The fair value of the investment properties has been determined by external, independent property valuers as at 5 September 2014 (2015: 5 September 2014). The fair value of the investments properties is \$16,480,000 (2015: \$16,480,000). The valuation basis of investment properties is fair value having regard to the highest and best use of the asset. The independent valuer used the discounted cash flow approach to determine the fair value.

The fair value measurement for all of the investment properties has been categorised as Level 3 fair value based on the inputs to the valuation techniques used.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.2 Property, plant and equipment

The composition of property, plant and equipment is as follows:

2016	Freehold land \$'000	Buildings \$'000	Plant and equipment \$'000	Capital works in progress \$'000	Total \$'000
Cost					
Balance at 1 July 2015	20,830	81,147	98,678	9,606	210,261
Additions	–	–	–	16,984	16,984
Disposals	–	(209)	(2,341)	–	(2,550)
Transfer from capital works in progress	–	–	21,744	(21,744)	–
Balance at 30 June 2016	20,830	80,938	118,081	4,846	224,695
Depreciation and impairment loss					
Balance at 1 July 2015	–	(6,058)	(57,114)	–	(63,172)
Depreciation charge for the year	–	(2,022)	(9,636)	–	(11,658)
Disposals	–	–	2,788	–	2,788
Balance at 30 June 2016	–	(8,080)	(63,962)	–	(72,042)
Carrying amounts					
Carrying amounts as at 1 July 2015	20,830	75,089	41,564	9,606	147,089
Carrying amounts as at 30 June 2016	20,830	72,858	54,119	4,846	152,653
2015	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
Balance at 1 July 2014	20,830	16,728	92,589	1,614	131,761
Additions	–	64,419	476	17,391	82,286
Disposals	–	–	(3,786)	–	(3,786)
Transfer from capital works in progress	–	–	9,399	(9,399)	–
Balance at 30 June 2015	20,830	81,147	98,678	9,606	210,261
Depreciation and impairment loss					
Balance at 1 July 2014	–	(4,733)	(50,291)	–	(55,024)
Depreciation charge for the year	–	(1,325)	(9,076)	–	(10,401)
Disposals	–	–	2,253	–	2,253
Balance at 30 June 2015	–	(6,058)	(57,114)	–	(63,172)
Carrying amounts					
Carrying amounts as at 1 July 2014	20,830	11,995	42,298	1,614	76,737
Carrying amounts as at 30 June 2015	20,830	75,089	41,564	9,606	147,089

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.2 Property, plant and equipment (continued)

Accounting policies

(i) *Recognition and measurement*

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably. Repairs and maintenance costs are expensed as they are incurred.

(ii) *Depreciation*

Depreciation is recognised on a straight-line basis over the estimated useful life of the property, plant and equipment. Land is not depreciated. The depreciation rates used for each class of asset in the current and comparative periods are as follows:

	Useful life
Buildings	40 years or lease term, if shorter
Plant and equipment	2.5 – 25 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(iii) *Impairment*

Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For further detail on impairment, refer to 4.3.1.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.3 Intangible assets

The composition of intangible assets is as follows:

2016	Goodwill \$'000	Software and licensing costs \$'000	Customer relationships \$'000	Customer contracts \$'000	Outstanding claims fair value adjustment \$'000	Development costs \$'000	Total \$'000
Cost							
Balance at 1 July 2015	238,927	159,349	27,979	3,744	48,962	33,488	512,449
Additions – internally developed	–	–	–	–	–	25,985	25,985
Additions – other additions	–	–	–	–	–	–	–
Disposals	–	(98)	–	–	–	–	(98)
Transfer from capital works in progress	–	51,269	–	–	–	(51,269)	–
Balance at 30 June 2016	238,927	210,520	27,979	3,744	48,962	8,204	538,336
Depreciation and impairment loss							
Balance at 1 July 2015	–	(98,130)	(22,079)	(3,744)	(41,299)	–	(165,252)
Amortisation charge for the year	–	(36,810)	(1,907)	–	(2,579)	–	(41,296)
Disposals	–	–	–	–	–	–	–
Balance at 30 June 2016	–	(134,940)	(23,986)	(3,744)	(43,878)	–	(206,548)
Carrying amounts							
Carrying amounts as at 1 July 2015	238,927	61,219	5,900	–	7,663	33,488	347,197
Carrying amounts as at 30 June 2016	238,927	75,580	3,993	–	5,084	8,204	331,788
2015	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost							
Balance at 1 July 2014	238,927	162,869	27,979	3,744	48,962	7,208	489,689
Additions – internally developed	–	–	–	–	–	36,124	36,124
Additions – other additions	–	–	–	–	–	–	–
Disposals	–	(13,364)	–	–	–	–	(13,364)
Transfer from capital works in progress	–	9,844	–	–	–	(9,844)	–
Balance at 30 June 2015	238,927	159,349	27,979	3,744	48,962	33,488	512,449
Depreciation and impairment loss							
Balance at 1 July 2014	–	(77,393)	(19,423)	(3,744)	(37,298)	–	(137,858)
Amortisation charge for the year	–	(34,101)	(2,656)	–	(4,001)	–	(40,758)
Disposals	–	13,364	–	–	–	–	13,364
Balance at 30 June 2015	–	(98,130)	(22,079)	(3,744)	(41,299)	–	(165,252)
Carrying amounts							
Carrying amounts as at 1 July 2014	238,927	85,476	8,557	–	11,664	7,208	351,831
Carrying amounts as at 30 June 2015	238,927	61,219	5,900	–	7,663	33,488	347,197

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.3 Intangible assets (continued)

4.3.1 Impairment testing for cash-generating units containing goodwill

The aggregate carrying amounts of goodwill allocated to each cash generating unit (CGU) is as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
RACQ Insurance Limited	238,208	238,208
Other CGU without significant goodwill	719	719
Carrying amount at end of year	238,927	238,927

The recoverable amounts of CGUs have been determined based on value-in-use calculations, determined by discounting the future cash flows generated from the continuing use of the CGUs based on cash flows projected from the financial forecasts approved by the Board of Directors covering a five-year period. These calculations require the use of assumptions, which represent management's assessment of future trends in the industry and are based on both external and internal sources of data. Key assumptions used in the calculation of recoverable amounts are as follows:

	Discount Rate		Terminal Value Growth Rate		Budgeted Average EBITDA Growth Rate	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
RACQ Insurance Limited	9.5	9.25	2.5	2.5	5.6	2.1

The discount rate is a post-tax measure estimated based on past experience, and industry average weighted average cost of capital. A long-term growth rate into perpetuity has been determined that does not exceed the long term average growth rate for the industry. Budgeted EBITDA growth rate has been based on past experience, with adjustments where future activities are expected to differ materially from past performance.

No impairment loss has been recognised (2015: nil). A reasonably possible change in any of these assumptions is not expected to result in impairment.

Accounting policies

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Other intangible assets, including customer relationships, which are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at acquisition date.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in surplus as incurred.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in surplus as incurred.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.3 Intangible assets (continued)

Accounting policies (continued)

(ii) Amortisation

Except for goodwill, intangible assets are amortised over the estimated useful life of the intangible asset from the date the asset is available for use. The amortisation bases used for each class of asset for the current and comparative periods are as follows:

	<i>Basis</i>	<i>Useful life</i>
Software and licensing costs	Straight line	4 –10 years
Customer relationships	Discounted cash flow	10 years
Net fair value of claims reserve	Claims runoff	19 years

Amortisation methods, useful lives and residual values are reassessed at each reporting date.

(iii) Impairment

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing assets are grouped together by the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGU).

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in surplus. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.4 Employee benefits

4.4.1 Employee benefits expense

Employee benefits expense comprise:

	RACQ Group	
	2016	2015
	\$'000	\$'000
Wages and salaries	124,954	125,776
Defined contribution superannuation expenses	11,286	9,735
Expense related to defined benefit superannuation funds	–	110
	136,240	135,621

4.4.2 Employee benefits liabilities

Employee benefits liabilities comprise:

	RACQ Group	
	2016	2015
	\$'000	\$'000
Current		
Salaries & wages accrued	3,860	4,769
Liability for annual leave	12,546	12,602
Liability for long service leave	9,070	8,920
	25,476	26,291
Non-current		
Liability for long service leave	5,199	4,470
	5,199	4,470

Accounting policies

(i) Short term benefits

Short term employee benefits represent the amount that the Group has a present obligation to pay resulting from employees' services provided up to the reporting date, which are expected to be wholly settled within 12 months of the reporting date. They are measured at undiscounted amounts based on wage and salary rates that the Group expects to pay when the liability is settled, including related on-costs such as workers compensation insurance and payroll tax.

(ii) Long term benefits

The RACQ Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted to determine its present value. Remeasurements are recognised in surplus in the period in which they arise.

(iii) Superannuation

Obligations for contributions to defined contribution superannuation funds are recognised as an expense as the related services is provided.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.5 Transactions with key management personnel

Key management personnel of the Group may obtain membership, insurance products and other services and products from the Company and/or its controlled entity, RACQ Insurance Limited, on the same terms and conditions as those obtained by Company employees and are trivial or domestic in nature.

No key management personnel have entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving key management personnel interests subsisting at 30 June 2016. There are no loans to/from key management personnel.

4.5.1 Key management personnel compensation

Key management personnel compensation comprise:

	RACQ Group	
	2016 \$	2015 \$
Short-term employee benefits	6,071,000	6,527,388
Post-employment benefits	361,504	375,556
Other long-term benefits	675,571	745,764
Termination benefits	–	21,049
	7,108,076	7,669,757

The remuneration paid by RACQ Insurance Limited to RACQ directors for their services as an RACQ Insurance Limited director during the year to June 2016 totalled \$525,064 (2015: \$476,810). Directors of all other subsidiary companies within the RACQ Group are not separately remunerated for their services to those subsidiary companies.

The Group Chief Executive Officer of The Royal Automobile Club of Queensland Limited, Mr Ian A Gillespie, is a director of RACQ Insurance Limited and Club Insurance Holdings Pty Ltd. Mr Gillespie acted in his role as the nominee for The Royal Automobile Club of Queensland Limited and was not separately remunerated.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.5 Transactions with key management personnel (continued)

4.5.2 Director Compensation

(i) Director compensation for The Royal Automobile Club of Queensland Limited

During the year, non-executive directors received the following fees for their service as directors on the Boards described above (excluding the RACQ Insurance Limited Board). As of 1 January 2015, directors received \$87,500 per annum with additional fees paid for committee work and chairman responsibilities. Fees paid are inclusive of superannuation.

	2016 \$	2015 \$
Nigel Alexander, Chairman*	175,541	137,271
Fay Barker	113,382	105,735
Campbell Charlton	113,382	106,068
Arthur Gearon (resigned 30 March 2016)	85,332	22,385
Anthony Gambling*	88,091	98,817
Elizabeth Jameson*	100,441	113,427
Geoffrey Leddy* (retired 20 November 2014)	–	79,137
Stephen Maitland*	125,732	111,342
Bronwyn Morris*	100,441	108,536
Karl Morris	113,382	105,735
Richard Pietsch* (retired 13 December 2014)	–	49,635
	1,015,724	1,038,088

* Director of Club Insurance Holdings Pty Ltd while also a director of RACQ Insurance Limited.

(ii) Director compensation for RACQ Insurance Limited

Directors of the Company who are also directors of RACQ Insurance Limited are paid fees by RACQ Insurance Limited. This remuneration is supplementary to the remuneration paid by the Company. Directors of RACQ Insurance Limited who also sit on The Royal Automobile Club of Queensland Limited Board receive \$82,300 per annum and directors who do not sit on The Royal Automobile Club of Queensland Limited board receive \$113,000 per annum. Additional fees are paid for committee work and chairman responsibilities. Fees paid are inclusive of superannuation.

During the year non-executive directors received the following fees for their service as directors of RACQ Insurance Limited. Fees are inclusive of the services delivered for board and committee responsibilities.

	2016 \$	2015 \$
Nigel Alexander, Chairman	165,241	165,727
Anthony Gambling	119,941	68,909
Neville Ide	138,882	139,985
Elizabeth Jameson	119,941	36,327
Raymond Jones	138,882	136,985
Geoffrey Leddy (retired 20 November 2014)	–	31,901
Stephen Maitland (resigned 13 March 2015)	–	65,569
Bronwyn Morris	119,941	108,699
Vyn Tozer	151,232	145,639
	954,060	899,741

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.6 Unearned revenue

The unearned revenue at the end of the reporting period was as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
<i>Unearned premiums</i>		
Balance at the beginning of the year	343,055	342,662
Insurance premiums written during the year	742,955	704,600
Insurance premiums earned during the year	(717,879)	(704,207)
Balance at the end of the year	368,131	343,055
<i>Unearned member subscriptions</i>	71,409	68,660
Total unearned revenue	439,540	411,715

Accounting policies

(i) Roadside and home assistance subscriptions and entrance fees

Roadside and home assistance subscriptions comprise amounts received from members for roadside and home assistance. The earned portion of subscriptions received is recognised as revenue evenly over the subscription period using the 365 day method (earned over one year). Revenue received applicable to the unexpired period of the subscription term is recognised as unearned income. Entrance fees are recognised as revenue upon receipt.

(ii) Unearned insurance premium liability

Premium revenue received or receivable but not earned at the reporting date is recognised as unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

4.7 Income tax

4.7.1 Income tax expense

Income tax expense comprises current and deferred tax and is recognised in surplus except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.7 Income tax (continued)

4.7.1 Income tax expense (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Company and its wholly-owned Australian resident entities are not part of a tax-consolidated group. As a consequence each entity is separately assessed for tax.

Details of the aggregated current and deferred tax expense are as follows:

	RACQ Group	
	2016 \$'000	2015 \$'000
<i>Recognised in surplus</i>		
Current tax expense:		
Current year	15,911	22,596
Adjustments for prior years	1,130	1,093
	17,041	23,689
Deferred tax expense:		
Origination and reversal of temporary differences	(7,905)	(3,910)
Total income tax expense	9,136	19,779
 <i>Deferred tax recognised directly in equity</i>		
Relating to remeasurement of defined benefit plan	(365)	354
Relating to available for sale financial assets	(1,208)	107
Total income tax expense/(benefit) recognised directly in accumulated funds	(1,573)	461

4.7.2 Reconciliation of the prima facie income tax expense on operating surplus before tax

	RACQ Group	
	2016 \$'000	2015 \$'000
Prima facie tax expense calculated at 30% (2015: 30%) on operating surplus before tax	9,663	21,001
 <i>Movement in income tax expense due to:</i>		
– Non-deductible expenses	484	218
– Non-assessable income	(630)	–
– Mutual income and related deductions	190	(826)
– Tax offset in franked dividends	(804)	(711)
– Foreign income tax offsets	(41)	–
– Withholding tax credits	(10)	–
– Prior year under/(over) provision for research and development amendments	(663)	(289)
– Prior year under/(over) provision other	947	386
Income tax expense/(benefit) on operating surplus	9,136	19,779

Notes to the Financial Statements

for the year ended 30 June 2016

4 Other assets and liabilities (continued)

4.7 Income tax (continued)

4.7.3 Recognised deferred tax assets and liabilities

A deferred tax asset is recognised to the extent that it is probable that a future taxable surplus will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset.

Deferred tax assets and liabilities are attributable to the following:

RACQ Group	Assets		Liabilities		Net	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Property, plant and equipment	27	–	(4,939)	(8,761)	(4,912)	(8,761)
Accruals	2,401	–	–	–	2,401	–
Acquisition adjustment	–	–	(2,723)	(4,069)	(2,723)	(4,069)
Investments	1,525	–	(7,967)	(6,679)	(6,442)	(6,679)
Claims handling costs on outstanding claims	14,676	13,056	–	–	14,676	13,056
Employee benefits	8,045	7,798	–	–	8,045	7,798
Provisions	2,766	–	(38)	–	2,728	–
Other items	1,490	2,493	(502)	(425)	988	2,068
Tax offsets carried forward	15,993	13,973	–	–	15,993	13,973
Tax losses recognised	2,842	6,732	–	–	2,842	6,732
Tax assets/(liabilities)	49,765	44,052	(16,169)	(19,934)	33,596	24,118
Set off of tax	(16,169)	(19,934)	16,169	19,934	–	–
Net tax assets/(liabilities)	33,596	24,118	–	–	33,596	24,118

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes

5.1 Other expenses

Included in other expenses is the amount of \$9,121,000 relating to ex-gratia payments. These ex-gratia payments relate to payments made to claim service providers' for payments to contractors of Stream Group Australia following their voluntary administration in December 2015. The payments are deemed ex-gratia as there was no contractual obligation for RACQ Insurance to settle the outstanding creditors of Stream Group Australia.

5.2 Notes to the Statement of Cash Flow

	RACQ Group	
	2016 \$'000	2015 \$'000
Surplus for the year	23,073	50,225
<i>Add/(less) items classified as investing activities</i>		
Loss/(profit) on disposal of property, plant and equipment	(637)	44
Dividend income	(3,340)	(2,377)
Rental income	(1,537)	(4,077)
Interest income	(56,925)	(57,487)
Trust distribution income	(1,543)	–
<i>Add/(less) non-cash items</i>		
Impairment loss on investments	–	398
Depreciation and amortisation expense	53,112	51,159
Gain on sale of investments	1,473	3,746
Change of fair value of investments	2,089	(2,327)
Share of profit of equity accounted for investments	252	60
Contribution holiday taken for payment of RACQ Superannuation Fund	394	3,595
Net cash provided by/(used in) operating activities before change in net assets and liabilities	16,411	42,959
<i>Change in assets and liabilities</i>		
Trade and other receivables	(21,375)	(5,615)
Reinsurance and other recoveries receivable	72,915	(37,322)
Other assets	(1,427)	(2,189)
Deferred acquisition costs	(1,317)	(3,594)
Unearned revenue	27,825	1,680
Trade and other payables	(4,216)	25,286
Outstanding claims liability	(25,345)	56,645
Provision for employee benefits	167	2,841
Deferred tax balances	(9,478)	(3,511)
Income tax receivable	1,235	(24,725)
Other non-current liabilities	(5)	10
Net cash provided by/(used in) operating activities	55,390	52,465

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.3 Equity accounted for investments

The Group's interest in equity accounted investees comprises interests in associates. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost and subsequently adjusted for to include the Group's share of the profit or loss of equity accounted investees.

The Group has a 33.3% interest in Australian Club Consortium Pty Ltd. During the prior financial year, Australian Club Consortium commenced operations. Australian Club Consortium is a strategic supplier for the RACQ group, which is principally involved in the investigation and investment in systems, products and services beneficial to Automotive Clubs in Australia. Australian Club Consortium is not publicly listed.

The table below summarises the financial position of Australian Club Consortium Pty Ltd as included in its own financial statements.

	RACQ Group	
	2016 \$'000	2015 \$'000
Percentage ownership interest held in entity by Group	33.3%	33.3%
Current assets	2,181	2,238
Non-current assets	11,158	3,079
Current liabilities	1,221	2,495
Non-current liabilities	10,050	–
Net assets (100%)	2,068	2,822
Group's share of net assets	689	941
Carrying amount of interest in Associate	689	941
Revenue	–	–
Profit/(loss) from continuing operations (100%)	(755)	(180)
Total comprehensive income	–	–
Group's share of loss	(252)	(60)

Below is a reconciliation of the financial position reported by Australian Club Consortium Pty Ltd and the carrying amount of the Group's interest in the entity as at 30 June 2016.

	RACQ Group	
	2016 \$'000	2015 \$'000
Carrying amount of interest in Associate at beginning of period	941	1
New investment made during period	–	1,000
Share of loss from operations	(252)	(60)
Carrying amount of interests in Associate at end of period	689	941

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.4 Leases and commitments

The Group leases property under operating leases expiring from one to six years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Some leases provide for additional rent payments that are based on changes in a price index. Payments made under operating leases are recognised on a straight-line basis over the term of the lease.

Commitments not provided for in the financial statements and payable:	<1 Year \$'000	1-5 Years \$'000	5+ Years \$'000	Total \$'000
2016				
Non-cancellable operating lease commitments	4,368	5,473	268	10,109
Property, plant and equipment commitments	–	–	–	–
Intangible asset commitments	1,451	788	–	2,239
2015				
Non-cancellable operating lease commitments	3,925	9,413	998	14,336
Property, plant and equipment commitments	3,058	–	–	3,058
Intangible asset commitments	2,913	269	–	3,182

During the year to 30 June 2016 minimum operating lease payments of \$3,676,492 were recognised (2015: \$4,652,335).

Future revenues not provided for in the financial statements and receivable:	<1 Year \$'000	1-5 Years \$'000	5+ Years \$'000	Total \$'000
2016				
Operating lease revenue as lessor	4,921	7,534	831	13,286
2015				
Operating lease revenue as lessor	4,889	13,602	682	19,173

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.5 Auditors' remuneration

The following services were provided by the Group's auditor during the reporting period:

	RACQ Group	
	2016	2015
	\$	\$
Audit services:		
<i>Auditors of the Group – KPMG Australia</i>		
Audit of the financial report	316,050	266,814
Other regulatory audit services	151,456	58,400
	467,506	325,214
Audit related services:		
<i>Auditors of the Group – KPMG Australia</i>		
Actuarial services	–	54,500
Other assurance	–	44,297
		98,797
Other services:		
<i>Auditors of the Group – KPMG Australia</i>		
Taxation services	212,882	338,172
IT Advisory services	156,720	13,238
Other advisory services	246,396	58,448
	615,998	409,858

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.6 Group structure

5.6.1 Parent entity disclosures

The parent entity, The Royal Automobile Club of Queensland Limited, is a company limited by guarantee and has no share capital. In the event of winding up, members are liable to the amount of \$2.00 per member. The Company has 1,718,049 (2015: 1,355,356) guaranteeing members.

	The Royal Automobile Club of Queensland Limited	
	2016 \$'000	2015 \$'000
Surplus for the year	12,951	11,633
Other comprehensive income	–	–
Total comprehensive income for the year	12,951	11,633

	The Royal Automobile Club of Queensland Limited	
	2016 \$'000	2015 \$'000
<i>Financial position of the Company as at the end of the year:</i>		
Current assets	680,082	597,021
Total assets	780,629	738,996
Current liabilities	264,731	233,423
Total liabilities	264,731	233,423
<i>Total accumulated funds of the Company comprising of:</i>		
Retained surplus	515,898	505,573
Total accumulated funds	515,898	505,573

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee ("the Deed") with the effect that the Company guarantees debts in respect of its subsidiaries. Further details, including the subsidiaries subject to the Deed, are disclosed in Notes 5.6.2 and 5.6.3.

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.6 Group structure (continued)

5.6.2 Controlled entities

The following depicts the Group structure and the interest held in each controlled entity:

	Interest held	
	2016 %	2015 %
RACQ Operations Pty Ltd ²	100	100
The Road Ahead Publishing Co Pty Ltd ²	100	100
RACQ Investments Pty Ltd ²	100	100
Club Equities Pty Ltd	100	100
Club Equities Holdings Pty Ltd	100	100
RACQ-Queensland Driving Excellence Centre Pty Ltd	100	100
Fuel Assist Pty Ltd	100	–
RACQ Investments No.2 Pty Ltd ²	100	100
Club Insurance Holdings Pty Ltd ¹	100	100
RACQ Insurance Limited	100	100
Club Finance Holdings Limited	100	–
RACQ Foundation Pty Ltd	100	100
RACQ Foundation Fund	100	100
RACQ Foundation Trust	100	100

1 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments Pty Ltd, and 50% of the shares in Club Insurance Holdings Pty Ltd are held by RACQ Investments No.2 Pty Ltd.

2 Subsidiaries are parties to the Deed of Cross Guarantee, as described in Note 5.6.3.

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.6 Group structure (continued)

5.6.3 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, RACQ Operations Pty Ltd is relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgment of a financial report and a directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries noted in Note 5.6.2 enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

A consolidated statement of comprehensive income and consolidated balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed, for the year ended 30 June 2016 is set out as follows:

	Consolidated parties to the Deed	
	2016 \$'000	2015 \$'000
Revenue	333,085	309,655
Expenses	322,861	262,603
Surplus before tax	10,224	47,052
Share of profit/(loss) of equity-accounted for investments in Associates	(252)	(60)
Income tax expense	(2,510)	(2,362)
Surplus for the year	7,462	44,630
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Defined benefit plan actuarial gains	(1,216)	1,179
Income tax expense	365	(354)
Total items that will not be reclassified to profit or loss	(851)	825
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Net change in fair value of financial assets held as available-for-sale	(2,622)	(195)
Net change in fair value of available-for-sale financial assets sold reclassified to profit or loss	(1,405)	550
Income tax expense	1,208	(107)
Total items that may be reclassified subsequently to profit or loss	(2,819)	248
Total other comprehensive income for the year, net of income tax	(3,670)	1,073
Total comprehensive income for the year	3,792	45,703

Notes to the Financial Statements

for the year ended 30 June 2016

5 Other notes (continued)

5.6 Group structure (continued)

5.6.3 Deed of cross guarantee (continued)

	Consolidated parties to the Deed	
	2016 \$'000	2015 \$'000
Assets		
Cash and cash equivalents	30,051	27,605
Trade and other receivables	94,406	92,126
Investment securities	92,305	89,805
Other current assets	10,495	8,048
Total current assets	227,257	217,584
Investment securities	683,468	684,028
Investment property	7,240	7,398
Property, plant and equipment	148,551	142,029
Intangible assets	84,499	95,423
Deferred tax assets	21,888	17,497
Other non-current assets	6,329	8,281
Investment in Associates	689	941
Total non-current assets	952,664	955,597
Total assets	1,179,921	1,173,181
Liabilities		
Trade and other payables	40,673	42,388
Unearned revenue	71,408	68,659
Current tax payable	3,697	3,428
Employee benefits	23,376	22,460
Total current liabilities	139,154	136,935
Employee benefits	5,199	4,470
Total non-current liabilities	5,199	4,470
Total liabilities	144,353	141,405
Net assets	1,035,568	1,031,776
Accumulated funds		
Reserves	7,526	10,345
Retained surplus	1,028,042	1,021,431
Total accumulated funds	1,035,568	1,031,776

5.7 Contingent liability

As at reporting date, there has not arisen any events that give rise to a contingent liability (2015: nil) of the Group or its subsidiaries.

5.8 Events subsequent to reporting date

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' Declaration

1. In the opinion of the directors of The Royal Automobile Club of Queensland Limited (the "Company"):
 - (a) the consolidated financial statements and notes, set out on pages 39 to 82, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the RACQ Group as at 30 June 2016 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; 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.
2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 5.6.2 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
3. The directors draw attention to Note 1 to the consolidated financial statements, which include a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



Nigel WF Alexander

Chairman

Dated at Brisbane
this 12th day of September 2016



Independent Auditor's Report

to the members of The Royal Automobile Club of Queensland Limited

We have audited the accompanying financial report of The Royal Automobile Club of Queensland Limited (the company), which comprises the Consolidated Balance Sheet as at 30 June 2016, and Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash flows for the year ended on that date, Notes 1 to 5.8 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 control as the directors determine is 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 Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 control 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 control. 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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



Independent Auditor's Report

to the members of The Royal Automobile Club of Queensland Limited

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group'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*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

KPMG

Robert S Jones

Partner

Brisbane

12 September 2016

Tracey Barker

Partner

Brisbane

12 September 2016



Lead Auditor's Independence Declaration

under Section 307C of the *Corporations Act 2001*

To: the directors of The Royal Automobile Club of Queensland Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Robert S Jones

Partner

Brisbane

12 September 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Profession Standards Legislation.

Corporate Directory

Club Patron

His Excellency Mr Paul de Jersey AC
Governor of Queensland

President and Chairman

Nigel WF Alexander
B.Bus, MAppFin, FCPA, FAICD

GROUP LEADERSHIP TEAM

Group Chief Executive Officer

Ian A Gillespie
BA, Dip Laws (BAB), FCEOI, FAICD, FAIM

Chief Information Officer

Gregory R Booker
MBA, MMgmt, MAICD

Chief Executive Officer, Insurance

Bradley P Heath
B.Bus Acc, GAICD

Group Chief Financial Officer

Michael Lonergan
B.Bus, FCPA, GDip App Fin

Chief Executive Officer, Operations

Glenn A Toms
B.Bus, GDip Fin & Inv, FFin, FAIM, GAICD

Chief Development Officer

Christopher P Walsh
B.Com (Acc), GAICD

Auditors

KPMG
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Website: racq.com

Postal Address

PO Box 4 Springwood QLD 4127
ACN 009 660 575
ABN 72 009 660 575

STORES AND MAJOR AGENCIES

Brisbane

Browns Plains – Grand Plaza Shopping Centre
Carindale – Westfield Carindale Shopping Centre
City – 103 Adelaide Street, Brisbane
Chermside – Westfield Chermside Shopping Centre
Eight Mile Plains – RACQ Operations Centre, 2649 Logan Road
Inala – Inala Plaza
Indooroopilly – Indooroopilly Shopping Centre
Mitchelton/Brookside – Brookside Shopping Centre
Strathpine – Westfield Strathpine Shopping Centre

Other Areas

Beenleigh – Shop 6 Beenleigh Mall, Main Street
Bundaberg – 249 Bourbong Street
Cairns – Stockland Shopping Centre, Earlville
Caloundra – 104 Bulcock Street
Capalaba – Shop 74 Capalaba Park Shopping Centre, Crn Redland Bay & Mt Cotton Rd
Elanora – The Pines Shopping Centre, Guineas Creek Road
Gladstone – 50 Hanson Road
Gympie – Goldfields Plaza, 71 Monkland Street
Hervey Bay – Shop 10 Stockland Shopping Centre, 6 Central Ave, Pialba
Ipswich – Riverlink Shopping Centre, Downs Street and The Terrace, North Ipswich
Mackay – Caneland Central, Cnr Victoria Street and Mangrove Road
Maroochydore – 25-33 Cornmeal Parade
Morayfield – Morayfield Shopping Centre, Morayfield Road
Nambour – 23-25 Currie Street
Nerang – My Centre, Station Street
Noosaville – Noosa Civic, 28 Eenie Creek Road
Redcliffe – Blue Water Square, Cnr Anzac Avenue and Sutton Street
Robina – Robina Town Centre, Harbour Court
Rockhampton – Red Hill Homemaker Centre, Yaamba Road, North Rockhampton
Southport West – 239 Nerang Road
Toowoomba – Clifford Gardens Shopping Centre, Cnr James Street and Anzac Ave
Townsville – 202 Ross River Road, Aitkenvale
Warwick – Rose City Shopping World, Palmerin Street







The Royal Automotive Club of Queensland Limited
ACN 009 660 575 ABN 72 009 660 575